

**Comprehensive
Annual
Financial Report**

**Fiscal Year Ended
June 30, 1999**

**Valley Center
Municipal
Water District
Valley Center, California**

The two sides of Valley Center Municipal Water District: We not only provide reliable water to over 7,000 customers, we also provide sewer service to over 2,200 households. In addition to upgrading our water distribution system, which this year included replacing a mile of pipe and planning for a new reservoir, we completed a major expansion project at the Lower Moosa Canyon Water Reclamation Facility.

VALLEY CENTER MUNICIPAL WATER DISTRICT
Valley Center, California

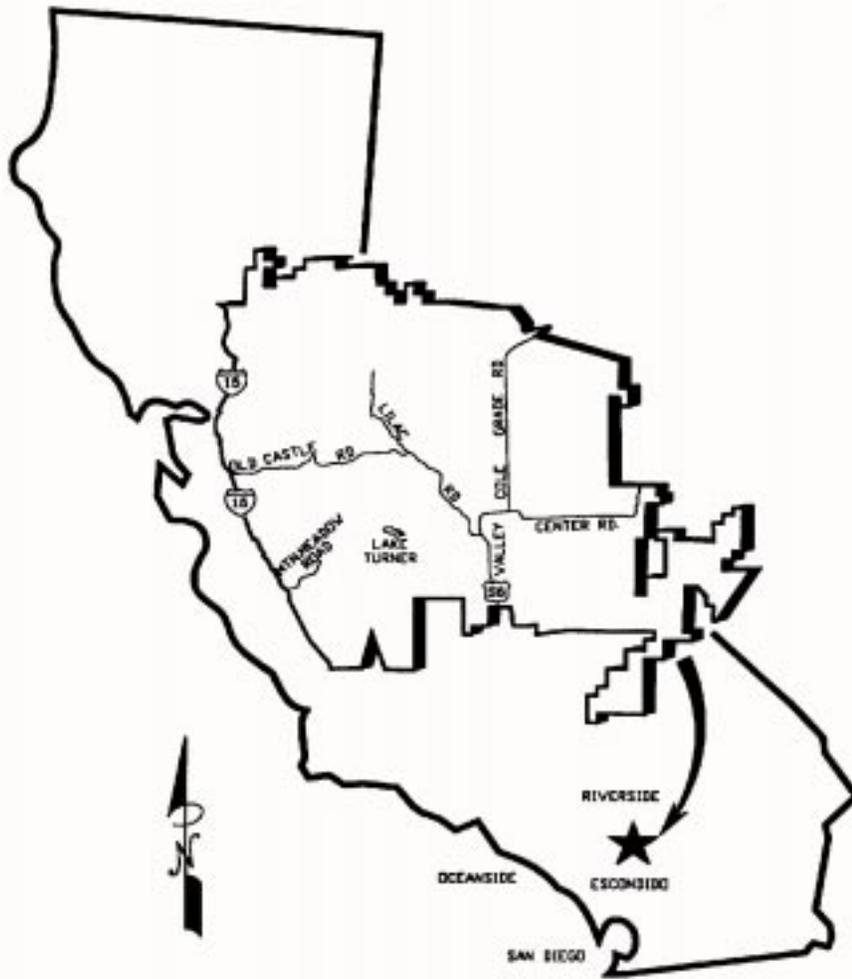
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED
JUNE 30, 1999

Prepared by :

The Finance Department
Jere L. Jarrell, Director of Finance
William J. Jeffrey, Accounting Manager

VALLEY CENTER MUNICIPAL WATER DISTRICT



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Certificate of Achievement for Excellence in Financial Reporting

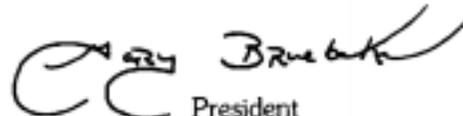
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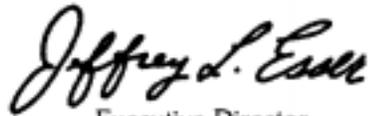
Valley Center Municipal
Water District,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.




Cary Brueck
President


Jeffrey L. Esall
Executive Director

INTRODUCTORY SECTION

REPORTING ENTITY

December 1, 1999

Gary A. Broomell, President
Members of the Board of Directors
Valley Center Municipal Water District
29300 Valley Center Road
Valley Center, CA 92082

We are pleased to present the Valley Center Municipal Water District's Comprehensive Annual Financial Report for the year ended June 30, 1999.

The report was prepared by the District's Finance Department in accordance with generally accepted accounting principles. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the District. We believe the data, as presented, are accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and results of operations of the District. Included are all disclosures we believe are necessary to enhance the understanding of the financial condition of the District. The report is divided into three sections:

- I. The introductory section including this transmittal letter with other pertinent information to assist in understanding the financial condition of the District and the results of its operations for the year.
- II. The financial section including the independent auditor's report on the financial statements and supplemental schedules.
- III. The statistical section including a number of unaudited tables describing the financial history of the District for the past ten years as well as demographic and other miscellaneous information.

For reporting purposes, the financial statements present a combined report which includes all District activities for which the Board of Directors of Valley Center Municipal Water District is primarily financially accountable. The District has established various self-balancing groups of accounts or subfunds in order to enhance internal control and further the attainment of management objectives. The subfunds of the reporting entity are identified in the District's books and records as the General, Lower Moosa Sewer Treatment, Moosa Sewer Expansion and Reclamation, Skyline Ranch Sewer, Woods Valley Ranch Sewer, Improvement District U-12, and Community Facilities District subfunds.

The General subfund accounts for all activity related to water operations as well as the general operations of the District. Lower Moosa Sewer Treatment and Skyline Ranch Sewer Treatment subfunds account for the sewer collection and treatment operations for these two facilities which service separate and limited areas of the District. The Moosa Sewer Expansion and Reclamation subfund accounts for the modification and upgrading of the Moosa Sewer facility. The Woods Valley Ranch Sewer subfund presently is used to account for the expansion of the proposed sewer system. The Improvement District U-12 and the Community Facilities District subfunds account for the tax revenues that finance specific outstanding debt which was issued to benefit these distinct service areas. Activities not included as a part of this report are limited to the employees' Retirement Plan 002, as further explained in Note 8 of the financial statements, and Assessment District No. 96-1, described in Note 10.

District policy requires that its financial statements be audited annually by a Certified Public Accountant selected by the Board. This requirement has been satisfied and the independent auditor's report is included in the financial section of this report.

DISTRICT FORMATION AND ORGANIZATION

Valley Center Municipal Water District was founded on July 12, 1954, pursuant to the California Municipal Water District Law of 1911. Located in northern San Diego County, the District provides water and sewer services to its domestic, agricultural and commercial customers. The District covers 100 square miles of which approximately 58% receives water services. Historically, 75-90% of water sold has been used to irrigate avocado and citrus groves as well as other agricultural purposes.

A five-member Board of Directors, elected by geographic division, governs the District. The Board manages through an appointed general manager and three department heads. There are currently 57 employees working for the District.

As a member of the San Diego County Water Authority and the Metropolitan Water District of Southern California, Valley Center Municipal Water District imports 100% of its water from the Authority for resale to District customers. The District billed 7,051 customers for 36,682 acre feet of water during the year ended June 30, 1999. The cost to purchase this water from the Authority was \$17 million or 66% of District water operating expenses.

In its 45 years of existence, the District has constructed a water system consisting of seven aqueduct connections, 40 reservoirs, 26 pumping stations and 259 miles of water main. In 1989-90, its peak year, the District sold 48,075 acre feet of water, a quantity sufficient to meet the water usage needs of a city of approximately 200,000 people.

Although usage has declined in recent years, the District remains the second largest water retailer of imported water within the San Diego County Water Authority behind only the City of San Diego. The District is also the largest retail purchaser of agricultural water within the Metropolitan Water District's service area.

CURRENT ECONOMIC CONDITIONS AND OUTLOOK

New meter sales in the District continue to climb.

Residential meters grew 4.8% and this trend is expected to continue. The District currently has service availability letters for over 1,100 connections in process. California's economy has improved and we are starting to see an increase in new connections. The District's total active meters increased in 1998-99 by 264 meters to 7,051.

1998's unusually long and wet rainy season, caused by a condition

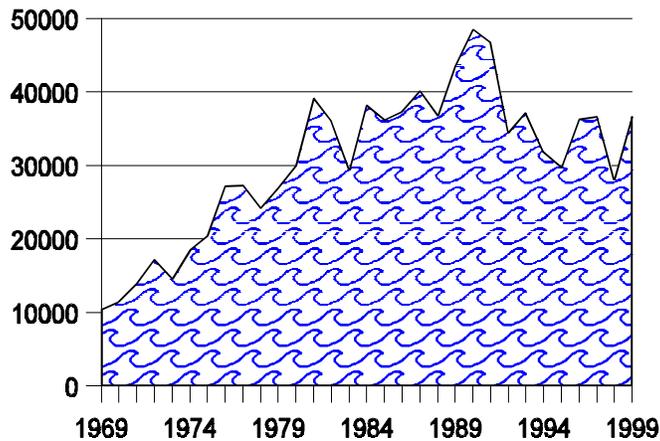
known as *El Niño*, has passed and water sales were more typical for 1998-99. This fluctuation of water sales by weather conditions illustrates the influence of agriculture on total water demand.

Water delivered to agricultural users represented 83% of the District's total water sold in fiscal year 1998-99 compared to 89% a decade earlier. A major factor in this decline in agriculture in the District has been the rapid rise in the price of water from 1990-91 to 1993-94, during which rates rose 131% due to increasing wholesale water costs.

In May of 1994, Metropolitan Water District implemented the Interim Agricultural Water Policy (IAWP), which provides a \$137 per acre foot

WATER SALES

In Acre Feet - Last 30 Years



discount to qualifying agricultural water users. This discount totaled a direct savings to the District's agricultural customers of \$4.2 million in 1998-99. Since June 1994 this discount has saved these customers over \$19 million. In addition, on January 1, 1999, the San Diego County Water Authority established a Special Agricultural Rate with a \$5 per acre foot discount. Except for the effects of weather, these discounts have stabilized agricultural water sales. However, other factors, including fruit price volatility and increasing populations in Southern California, will continue to impact the future of farming within the District.

It is anticipated that the program will continue to stabilize agricultural water use over its remaining term. The long-term benefit will hinge on if, and in what form, the program is extended beyond the interim period which ends in 2001. Metropolitan will evaluate establishing water sales contracts for agriculture beyond 2001.

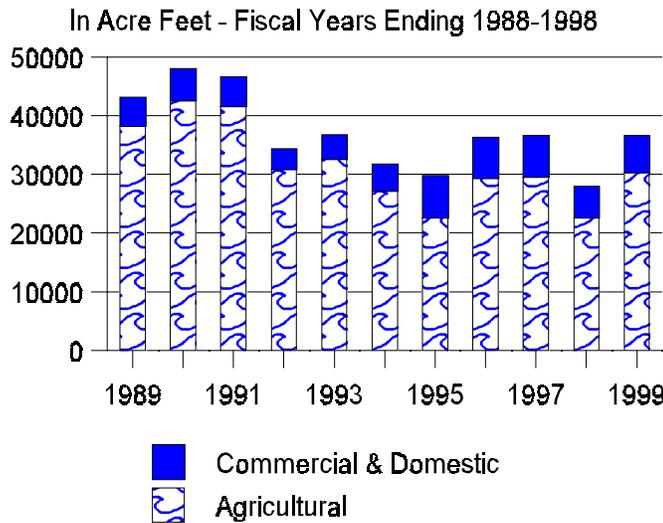
EFFORTS AND ACCOMPLISHMENTS

Economic Study Group (ESG) - Seven inland north San Diego County Water Authority member agencies banded together to form the Economic Study Group (ESG). Its member agencies, Fallbrook Public Utility District, Rainbow MWD, Rincon del Diablo MWD, Vallecitos Water District, Vista Irrigation District, Yuima MWD, and Valley Center MWD, pooled financial and staff resources to do a cost of service analysis of the San Diego County Water Authority. Results of the analysis, performed by Bookman Edmonston, Consulting Engineers, indicated that based upon the State Water Project Capital Cost Allocation Methodology, the members of the ESG, as well as most agencies north of the City of San Diego have overpaid for services

from the Authority. In response to the findings, the ESG proposed a revenue structure to the Authority which has fixed capital and operations and maintenance charges based upon the State Water Project methodology for capital, a fixed "postage-stamp" rate per acre foot charge for general administration as well as programs which benefit the San Diego Region, and the financing and construction of future projects based upon contractual arrangements between the Authority and its member agencies.

By the end of the fiscal year ended June 30, 1999, the ESG's study had been presented to the Authority's Board and staff, and was incorporated into a comprehensive analysis of the Authority's rates, charges and revenue structure, which will be ongoing through the first half of fiscal year 1999-2000.

WATER SALES BY CLASSIFICATION



CALFED Bay Delta Program - Efforts continued at monitoring and making input into the ongoing CALFED Bay Delta Program, a cooperative effort between the federal, state governments and various water related interests aimed at solving water and environmental resource issues associated with the hub of the State Water Project, the Sacramento, San Joaquin Delta and San Francisco Bay Estuary.

Toward the end of fiscal year 1998-1999, the Final Draft Programmatic Environmental Impact Report was released for public comment. Comments submitted by the District emphasized the concern that while \$5 billion in eco-system improvements were certainties, additional surface storage and conveyance features were pushed off into the future, dependent on reaching consensus on statewide advancements in water conservation efforts and

meeting water quality requirements. Our agency, along with most water interests in southern California feel that additional surface water storage and new water conveyance around the Delta will be necessary to solve critical water quantity, quality and reliability issues for all of California.

Metropolitan Water District Strategic Planning Process - Under pressure from the State Legislature, Member Agencies and to some extent within the agency itself, Metropolitan Water District has been involved in an extensive strategic planning process to evaluate options for the future structure and method of operation of the agency. Starting with twelve possible alternatives, the process worked to narrow the number of options, so that by June 30, 1999, the focus was on four. These four options include Status Quo, Regional Provider, Contract Model, and Unbundled. Realizing the importance of Metropolitan as the region's water resource manager and provider, Valley Center Municipal Water District has advocated that Metropolitan pursue the Regional Provider model, with opportunities for its members and subagencies to contract for types of water services, such as interruptible agricultural water service.

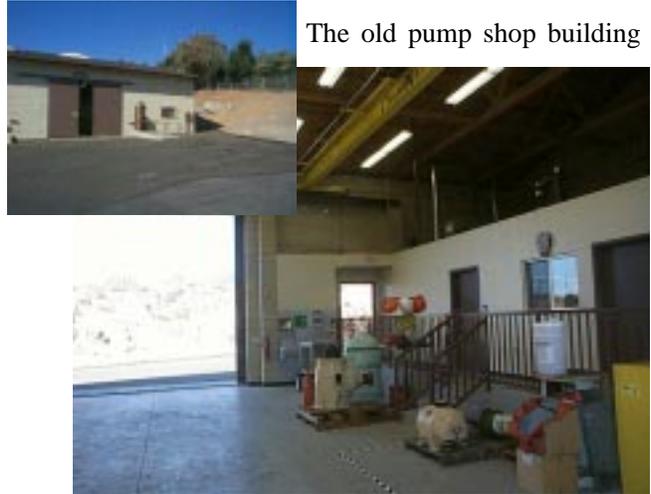
Telecommunications - A new telephone system was installed to provide additional extensions for better service, as well as voice mail and call accounting. We take pride in continuing our high level of personal service by having our main telephone number still answered by a live person.

Operating Efficiencies - Stringent controls were established to assure pumps are not operated during high-cost peak demand periods. Pump efficiency procedures were also established to reduce operating costs.

Through programs such as the meter exchange program for high usage accounts, the portable meter test bench for field testing of the larger agricultural meters, and the pump packing and leak detection programs, the District realized a water loss for 1998-99 of just 5.4%. This is an outstanding achievement within the water industry.

PLANNING AND CONSTRUCTION PROJECTS

New Pump Shop - Construction was completed on the new 3,200 square foot pump shop at the District's headquarters. The shop area allows trucks carrying pumps to drive through and includes a 2-ton hoist with trolley for the entire shop floor.



The old pump shop building

was remodeled by District personnel to provide separate space for sewer pump repairs and construction and maintenance operations.

New Reservoir Planning - Plans were finalized for the construction of the Via Cantamar Reservoir, a 3 million gallon steel reservoir to add to the storage in District's West area. The District's Master Plan identified the storage as a requirement to meet the water demands and reliability in that system. The project includes replacing and upsizing a portion of 12" tar wrapped steel line.

Road Widening Projects - VCMWD completed the replacement of almost a mile of 12" water line in Cole Grade Road in advance of the County road widening. Preliminary plans were made and negotiated with a developer adjacent to North Broadway for the replacement and upsizing of the 10" tar wrapped steel pipe where he was required to improve and widen that road. These tar wrapped steel lines were identified in the Master Plan for replacement as the opportunity occurred.

LOWER MOOSA CANYON WATER RECLAMATION FACILITY



From top to bottom: Sludge handling, clarifier, landscaping, plant piping, and aeration basin.

The expansion to the Lower Moosa Canyon Water Reclamation Facility was substantially completed by March 1999. The improvements consist of a covered aerobic digester, enclosed mechanical de-watering and sludge storage facilities, odor control facilities, and a Supervisory Control and Data Acquisition System. With these improvements, the plant's capacity was increased from 0.25 m.g.d. (million gallons per day) or 1,250 Equivalent Dwelling Units (EDUs) to a capacity of 0.5 m.g.d. (2,500 EDUs) and possibly as much as 0.65 m.g.d. (3,250 EDUs) depending on actual performance of the digester and aeration basin and selected mode of operation. Increased plant capacity was needed as the actual flow rate was approaching 0.25 m.g.d. and capacity commitments had been made for approximately 2,700 EDUs.

The capacity of the plant is a function of the operation mode and the individual capacities of each of the separate unit processes that comprise the plant. The major unit processes of the facility consist of the headworks, aeration basins, clarifiers, sludge digestion, sludge de-watering, and effluent disposal. The plant's capacity will be the capacity of the limiting unit process, that is, the weakest link. Prior to this expansion, sludge digestion and de-watering were the plant's weakest links. The existing digester and drying beds did not have sufficient capacity for the increasing flow rate. Thus, an expansion of the solids handling facilities (sludge digestion and de-watering) was needed.

Use of the sludge drying beds during wet weather, the thickening procedures used and the need to store excessive amounts of solids in the digester sometimes resulted in odors. The new digester has increased capacity and the mechanical de-watering equipment eliminates the need for the drying beds. The digester and mechanical de-watering equipment are completely enclosed allowing odors to be drawn off through the ventilation system and treated by the odor control facilities. Thus, odor problems due to drying beds, wet weather, thickening procedures, and digester capacity have been eliminated.

A Supervisory Control and Data Acquisition System (SCADA) was also installed. This system will monitor the individual unit processes within the plant and provide alarm notification through an auto dialer. The system will also allow "dial-in" phone status queries of the equipment and processes, thus assisting the operator in determining the response needs to the alarm. By querying the system to determine the nature of the alarm, the type and priority of the required response can be determined.

The Lower Moosa Canyon Water Reclamation Facility provides sewer service to the Interstate 15 corridor area of the District, from the Lawrence Welk development on the southern end, east to Hidden Meadows, and north to Circle R Drive. Ultimate capacity requirements for the service area are projected at 1.0 m.g.d. (5,000 EDUs). Timing for

further expansion depends on the growth rate in the service area.

Current plant capacity should be sufficient for at least ten years based on an estimated build out of 120 EDUs per year. However, recent connection history indicates that a build out rate of this magnitude may be excessive, thus, delaying the need for additional capacity even longer. It is anticipated that maintenance needs will drive the timing of future improvements needed for the plant. At such times further expansion and upgrades may be implemented due to economies of scale. Flow rates above 0.65 m.g.d. may require additional treatment to meet disposal requirements for the effluent. These improvements may require de-nitrification and or increasing the effluent quality to full California Department of Health Title 22 Standards resulting in an effluent suitable for irrigation of salt tolerant plants.

The District has contracts for the use of reclaimed water on the Lawrence Welk and Castle Creek Golf Courses. As the golf courses currently use well water for irrigation, reclaimed water proceeds are limited to the cost of delivery. Developers of parcels in the vicinity of the plant are required to provide on-site facilities suitable for the use of reclaimed water. The District would seek other customers for the reclaimed water to generate higher return thus providing an additional income source to offset the cost of plant operation and production of reclaimed water.



Geographical Information System - The District's Valve Book drawings were electronically scanned and indexed as part of the larger process of providing access to information about the District's facilities on the computer system.

Central Valley Sewer - Design continued for the County-approved Woods Valley Ranch subdivision small wastewater treatment and reclamation facility in the central Valley Center area. Investigation of the expansion of that plant, and of other potential facilities, to provide necessary capacity for nearby areas is underway.

ACCOUNTING SYSTEM

District records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water and sewer to the customers of the District are financed primarily through user charges. Revenues and expenses are recognized on the accrual basis in that both revenues and expenses are recognized in the accounting period they are earned or incurred. Fixed assets are recorded in the subfund purchasing the asset.

INTERNAL CONTROLS

Valley Center Municipal Water District operates within a system of internal accounting controls established and continually reviewed by management to provide reasonable assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing control, management must consider the cost of the control and the value of the benefit derived from its utilization. Management normally maintains or implements only those controls whose value adequately exceeds their cost.

All internal control evaluations occur within the above framework. Management believes the District's internal accounting controls, procedures and policies adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

In addition, the District maintains controls to provide for compliance with all finance related legal and contractual provisions. Management believes the activities reported within the presented comprehensive financial annual report comply with these finance related legal and contractual provisions, including bond covenants and fiduciary responsibilities.

BUDGETING CONTROLS

The District is not legally required to adopt and adhere to a budget or report on compliance with any prepared budgets. However, the Board of Directors approves a budget annually to be used solely as a management tool. Depending upon the timing and level of the demand for water services, the revenues and expenditures may vary significantly and cannot be strictly controlled by means of detailed and rigid appropriations. Therefore, the annual budgets must be viewed as estimates only. Budget appropriations for major capital projects continue from year to year until the project is completed.

DEBT ADMINISTRATION

At June 30, 1999, the District had \$3.0 million in long-term debt, further described as follows:

District-wide revenue bonds	\$ 1,060,000
District-wide loan payable	199,877
Improvement district G.O. bonds	75,000
Note payable for Moosa Expansion	1,500,000
CFD note payable	16,729
Retiree's health benefits plan liability	991,336
Annexation fees payable	13,478
Total long-term debt	<u>\$ 3,856,420</u>

The ratio of all District net bonded debt to assessed value at June 30, 1999, was 0.005% and net bonded debt was just \$3 per capita.

As the District has issued no bonded debt for public placement since 1968, it is not rated by Moody's Investment Service.

CASH MANAGEMENT

Cash temporarily idle during the year was invested in time certificates of deposit, government securities, the State of California Local Agency Investment Fund (LAIF), and other money market instruments in accordance with the Board of Directors adopted investment policy. The average monthly percentage of inactive funds invested was approximately 100%. The amount of investment income recorded by all funds in the District in 1998-99, was \$1,144,186, down \$307,673 from the income reported in the prior year. The average yield on the District's investments dropped from 5.7% for 1997-98 to 5.4% for 1998-99, reflecting market conditions.

RISK MANAGEMENT ACTIVITIES

Since 1979, the District has been a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA provides joint protection coverage for losses in excess of District deductible for general, auto and public liability, and workers' compensation coverage. Property and fidelity coverage is purchased through sources provided by the JPIA. Risk management is more thoroughly discussed in Note 11 to the financial statements.

YEAR 2000 READINESS

The District has a formal Year-2000 plan which is discussed in Note 15 of the financial statements. Our *Year 2000 Readiness Disclosure* is available upon request or on our Internet site at www.vcmwd.org.

ANALYSIS OF SUBFUNDS

General Subfund:

General Subfund Revenues for the year ended June 30, 1999, totaled \$26,698,747, which is a 25.0% increase from the prior year. Details of this increase in revenues are as follows:

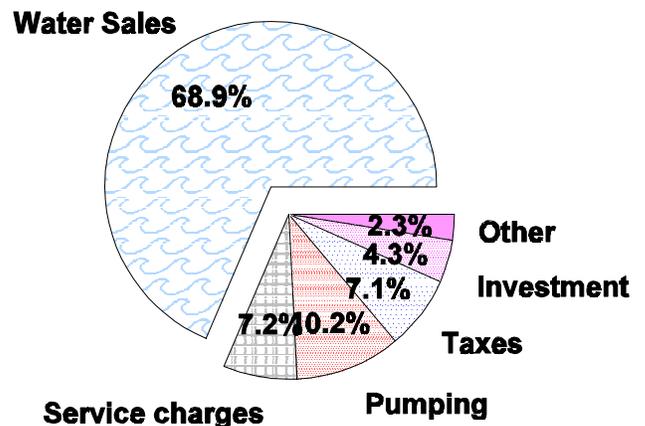
- ▶ Water sales increased by 34.4%, or \$4,712,289, from the prior year. The prior year's water deliveries were drastically

reduced 23.6% by *El Niño's* wet weather. There was a 31.0% increase in the volume of water sold and a 1.5% increase in agricultural water rates on January 1, 1999. In 1998-99, 36,682 acre feet of water were billed compared to 27,977 acre feet in the prior year. Included in the water sales figures are meter charges of \$1,925,103 in 1998-99 and \$1,802,903 in 1997-98.

- ▶ Energy and pumping revenues increased 30.2%, or \$631,791, due to the increase in the volume of water sold.
- ▶ Property taxes and assessments decreased by 0.6%, or \$11,643, from 1997-98 to 1998-99. This slight decrease is due to a decrease in the District's debt service tax rate and an increase in deferrals of the District-wide water availability charge. These were offset by a small increase in assessed value. The District has adopted San Diego County's alternative method of distribution of tax levies and collections under which the County advances 100% of the secured tax levies due to the District each year without consideration for delinquencies.
- ▶ Investment income decreased 20.7%, or \$297,341, from the prior year. This decline is due to market conditions. Yields declined

GENERAL SUBFUND REVENUE

Fiscal Year 1998-99



from 5.7% to 5.2% during the course of the year. Interest income includes interest earned by the general subfund from advances to the sewer subfunds.

- ▶ Other revenues increased \$154,511 in 1998-99. The District received a settlement payment of \$170,800 from the State of California for retroactive interest paid on a Safe Drinking Water Act loan as explained in Note 12 to the financial statements. The District also received an additional \$6,673 from the Office of Emergency Services of the Federal and State of California governments for flood damage that occurred in early 1998.

General subfund expenses for the year ended June 30, 1999, totaled \$25,572,878, an increase of 24.6% or \$5,044,523. Certain significant expenses are as follows:

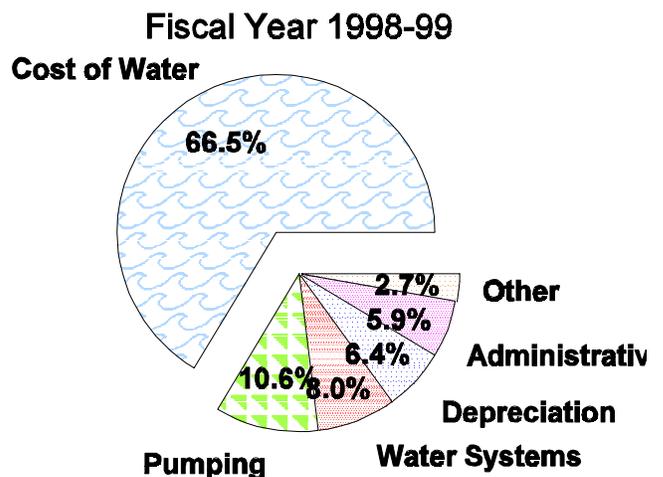
- ▶ The cost of water sold increased 32.8% due to the increase in water deliveries caused by a return to more normal weather conditions after 1997-98's *El Niño*. In 1997-98, the District purchased 29,301 acre feet of water at an average price of \$437 per acre foot. In the current year, the District purchased 39,195 acre feet of water at an average price of \$434 per acre foot, a decrease of 0.7% or \$3 per acre foot. This decrease in the average cost results from a greater portion of water deliveries being made to agricultural users due to the drier conditions. Cost of water sold includes Metropolitan Water District's readiness-to-serve charge which is based on historical water purchases. The District's readiness-to-serve charge was \$1,156,412 (\$30 per acre foot sold) for 1998-99 and \$1,038,818 (\$35 per acre foot) for 1997-98.

Excluding the readiness-to-serve charge, the price of water purchased for delivery to agricultural customers was \$374 per acre foot compared to \$516 per acre foot for other users in 1998-99. This cost reduction for agricultural water is passed through to

the District's qualified agricultural customers.

- ▶ Energy and other pumping costs associated with the distribution of water for the District increased 27.9%, or \$588,918, due to the increase in water delivered.
- ▶ Water systems operations and maintenance expenses increased 0.7%, or \$13,364, from the prior year.
- ▶ Depreciation expense in 1998-99 increased 1.6%, or \$25,828, from the prior year due to plant additions.
- ▶ General and administrative expenses increased 11.2%, or \$151,838. This includes approximately \$60,000 for the District's share of the Economic Study Group project as explained on page iv. It also includes increases in computer operation costs, including Year 2000 remediation costs and network design. Interest expense continued to decrease slightly from the prior year to the current year due to the decline in principal balances and lower interest rates.
- ▶ Other expenses in 1998-99 include expenses of \$85,470 for plant facilities which have been replaced and abandoned.

GENERAL SUBFUND EXPENSES



General Subfund Retained Earnings:

At June 30, 1999, the retained earnings of the General subfund amounted to \$46,240,048. Of this

amount, \$7,020,947 was unappropriated and available for any use determined by the Board of Directors, including but not limited to capital construction. This unappropriated retained earnings equaled 28% of the annual budget.

**GENERAL SUBFUND
REVENUES AND EXPENSES**

	<u>1999 Amount</u>	<u>1998 Amount</u>	<u>Increase (Decrease) From 1998</u>	<u>Percent Change</u>
REVENUES:				
Water sales	\$ 18,391,787	\$ 13,679,498	\$ 4,712,289	34.4 %
Meter service charges	1,925,103	1,802,903	122,200	6.8
Pumping and energy charges	2,721,762	2,089,971	631,791	30.2
Property taxes and assessments	1,904,887	1,916,530	(11,643)	(0.6)
Investment income	1,142,033	1,439,374	(297,341)	(20.7)
Customer fees and charges	406,497	380,267	26,230	6.9
Other revenues	<u>206,678</u>	<u>52,167</u>	<u>154,511</u>	<u>296.2</u>
Total revenues	<u>26,698,747</u>	<u>21,360,710</u>	<u>5,338,037</u>	<u>25.0</u>
EXPENSES:				
Cost of water sold	16,995,191	12,795,462	4,199,729	32.8
Energy and other pumping costs	2,697,960	2,109,042	588,918	27.9
Water systems operation & maint.	2,051,169	2,037,805	13,364	0.7
Depreciation	1,629,744	1,603,916	25,828	1.6
General and administrative	1,502,131	1,350,293	151,838	11.2
Engineering	531,482	502,083	29,399	5.9
Interest	79,584	119,334	(39,750)	(33.3)
Other expenses	<u>85,617</u>	<u>10,420</u>	<u>75,197</u>	<u>721.7</u>
Total expenses	<u>25,572,878</u>	<u>20,528,355</u>	<u>5,044,523</u>	<u>24.6</u>
Net income	<u>\$ 1,125,869</u>	<u>\$ 832,355</u>	<u>\$ 293,514</u>	<u>35.3 %</u>

Sewer Treatment Subfunds:

The Lower Moosa Sewer Treatment subfund serves 2,035 customers in a limited geographic area on the west side of the District. The revenue from sewer charges was \$417,008 for 1998-99, an increase of \$37,819 from the prior year. The monthly sewer service charge increased \$1.50 per unit on January 1, 1999.

LOWER MOOSA REVENUES & EXPENSES

	1999	1998	Change	
	<u>Amount</u>	<u>Amount</u>	From	%
			1998	<u>Chg.</u>
REVENUES:	<u>\$417,008</u>	<u>\$ 379,189</u>	<u>\$ 37,819</u>	<u>10.0</u> %
EXPENSES:				
Energy & pump	53,185	50,858	2,327	4.6
Operations	239,726	206,940	32,786	15.8
Depreciation	101,400	107,000	(5,600)	(5.2)
Administrative	51,060	42,090	8,970	21.3
Other	<u>58,315</u>	<u>(4,359)</u>	<u>62,674</u>	<u>-</u>
Total expenses	<u>503,686</u>	<u>402,529</u>	<u>101,157</u>	<u>25.1</u>
Net loss	<u>\$86,678</u>	<u>\$(23,340)</u>	<u>\$63,338</u>	<u>271.4</u> %

Assessment District No. 96-1 issued bonds in February 1997 under the Improvement Act of 1915 to fund part of the expansion of the Moosa facility. These bonds are not a general obligation of the District and are not presented in this report.

The Skyline Ranch Sewer Treatment subfund serves 222 customers in a single mobile home park on the east side of the District. The agreement between the District and the park requires the park to pay the full cost of maintenance, operation and replacement of the facilities.

The Woods Valley Ranch Sewer Subfund presently is used to account for the expansion of the proposed developer-constructed sewer system.

Improvement District Subfunds

General obligation bonds were issued to finance certain facility improvements for the improvement districts. These bonds are funded through tax revenues from property within the specific

improvement district's boundaries. Improvement district bonds in the amount of \$75,000 remained outstanding at June 30, 1999. All bonds will be fully paid by the year 2000.

Community Facilities District Subfund:

The Community Facilities District subfund was established to account for the repayment of a bank loan of \$1,500,000 obtained in June 1984. This loan financed facility improvements made within a specific area of the District. As with the improvement districts, the debt is funded through special assessment revenues on property within the Community Facilities District boundaries. This loan had a balance of \$16,729 at June 30, 1999, and will be fully paid by the year 2000.

EMPLOYEE RETIREMENT AND DEFERRED COMPENSATION PLANS

Currently, the District does not participate in Social Security. However, the District does provide a defined contribution retirement plan for its employees. The plan is fully funded with the District contributing 19% of eligible payroll with the employee being fully vested after five years. At June 30, 1999, there were 61 participants in the plan with total net assets available for plan benefits of \$8,725,580. The plan assets are invested by an advisor hired by the plan in accordance with policies and guidelines approved by the plan trustees. The plan is more fully described in Note 8 to the financial statements.

The District also offers its employees a deferred compensation plan under Internal Revenue Code section 457. At June 30, 1999, the plan had assets of \$1,766,148 and 46 active participants.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Center Municipal Water District for its comprehensive annual

financial report for the fiscal year ended June 30, 1998. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Valley Center Municipal Water District has received a Certificate of Achievement for the last seven consecutive years (fiscal years ended 1992 through 1998). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

ACKNOWLEDGMENTS

The preparation of this report could not have been accomplished without the contribution of the Finance Department staff. Special thanks are extended to the members of the District's Board of Directors for their continued interest and support in all aspects of financial management.

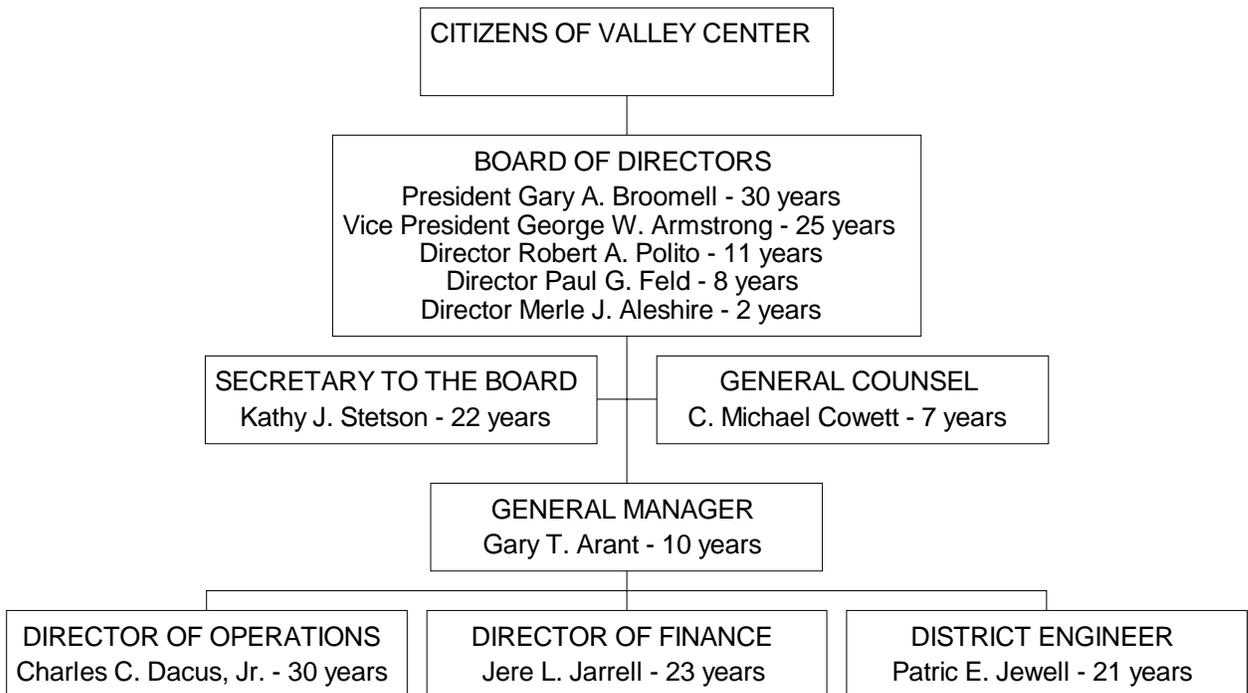
Respectfully Submitted:

Gary T. Arant
General Manager

Jere L. Jarrell
Director of Finance

VALLEY CENTER MUNICIPAL WATER DISTRICT ORGANIZATION CHART

With years of service



FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Valley Center Municipal Water District
Valley Center, California

We have audited the accompanying balance sheets of Valley Center Municipal Water District as of June 30, 1999 and 1998, and the related statements of revenues, expenses, and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Center Municipal Water District at June 30, 1999 and 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining information in Schedules 1 and 2 has been subjected to the auditing procedures applied in the audits of the financial statements and is presented for purposes of additional analysis of the financial statements rather than to present financial position and results of operations of the District's individual accounting subfunds. Accordingly, we do not express an opinion on the financial position and results of operations of the District's individual accounting subfunds. However, in our opinion, the combining information in Schedules 1 and 2 is fairly presented in all material respects in relation to the financial statements taken as a whole.

The statistical information as listed in the table of contents is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information.

October 5, 1999

VALLEY CENTER MUNICIPAL WATER DISTRICT

Balance Sheets

June 30, 1999 and 1998

Assets

	<u>1999</u>	<u>1998</u>
Current assets:		
Cash and cash equivalents	\$ 7,601,223	7,201,966
Certificates of deposit	-	585,000
Marketable securities	-	749,375
Accounts receivable - water and sewer, net	3,360,898	2,299,448
Interest receivable	330,257	239,358
Other receivables	38,313	48,602
Inventories	297,844	271,180
Prepaid expenses and deposits	150,777	124,936
Work in progress for others	126,001	102,863
Total current assets	<u>11,905,313</u>	<u>11,622,728</u>
Restricted assets:		
Cash and cash equivalents	4,441,472	473,338
Other receivables	32,954	34,593
Marketable securities	11,625,167	13,962,292
Total restricted assets	<u>16,099,593</u>	<u>14,470,223</u>
Utility plant, net	<u>43,445,788</u>	<u>41,329,750</u>
	<u>\$ 71,450,694</u>	<u>67,422,701</u>

See accompanying notes to financial statements.

Liabilities and Fund Equity

	<u>1999</u>	<u>1998</u>
Current liabilities (payable from current assets):		
Current installments of long-term debt	\$ 50,000	45,000
Accounts payable	3,189,033	2,465,634
Accrued payroll and compensated absences	746,872	718,408
Customer deposits	<u>274,904</u>	<u>234,350</u>
Total current liabilities (payable from current assets)	<u>4,260,809</u>	<u>3,463,392</u>
Current liabilities (payable from restricted assets):		
Current installments of long-term debt	291,606	663,709
Accrued interest	6,484	19,390
Other liabilities	<u>16,090</u>	<u>-</u>
Total current liabilities (payable from restricted assets)	<u>314,180</u>	<u>683,099</u>
Long-term debt, excluding current installments	<u>3,514,814</u>	<u>2,323,169</u>
Total liabilities	<u>8,089,803</u>	<u>6,469,660</u>
Fund equity:		
Contributed capital	14,138,236	13,252,586
Retained earnings	<u>49,222,655</u>	<u>47,700,455</u>
Total fund equity	<u>63,360,891</u>	<u>60,953,041</u>
	<u>\$ 71,450,694</u>	<u>67,422,701</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Statements of Revenues, Expenses, and Changes in Retained Earnings

Years ended June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Operating revenues:		
Water sales and pumping charges	\$ 23,038,652	17,572,372
Meter installation fees	161,875	132,914
Sewer charges	449,749	437,531
Delinquency charges	131,720	151,704
Other customer fees and charges	112,902	95,649
Total operating revenues	<u>23,894,898</u>	<u>18,390,170</u>
Operating expenses:		
Cost of water sold	16,995,191	12,795,462
Energy and pumping costs	2,757,191	2,164,899
Field and systems operations	889,714	901,463
Water treatment and quality control	79,126	81,431
Sewer collection and treatment	221,390	203,910
Engineering	531,482	502,083
Maintenance	1,140,137	1,093,094
Depreciation	1,803,750	1,783,522
General and administrative	1,560,855	1,399,502
Total operating expenses	<u>25,978,836</u>	<u>20,925,366</u>
Net operating loss	<u>(2,083,938)</u>	<u>(2,535,196)</u>
Nonoperating revenues (expenses):		
Investment income	1,144,186	1,451,859
Property taxes and assessments	2,085,844	2,140,125
Other nonoperating revenues	206,678	61,986
Interest expense, net	(94,362)	(145,547)
Other nonoperating expenses	(141,638)	(11,313)
Net nonoperating revenues	<u>3,200,708</u>	<u>3,497,110</u>
Net income	1,116,770	961,914
Add back depreciation on contributed assets	<u>405,430</u>	<u>397,551</u>
Net income closed to retained earnings	1,522,200	1,359,465
Retained earnings, beginning of year	<u>47,700,455</u>	<u>46,340,990</u>
Retained earnings, end of year	<u>\$ 49,222,655</u>	<u>47,700,455</u>

See accompanying notes to financial statements.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Statements of Cash Flows

Years ended June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Net operating loss	\$ (2,083,938)	(2,535,196)
Adjustments to reconcile net operating loss to net cash from operating activities:		
Depreciation	1,803,750	1,783,522
Retirees' health benefits plan expense	248,567	235,235
Changes in:		
Receivables	(1,086,823)	1,438,856
Inventories	(26,664)	10,740
Prepaid expenses and deposits	(25,841)	9,621
Work in progress for others	(23,138)	(1,853)
Accounts payable	1,087,698	(1,714,349)
Accrued payroll and compensated absences	28,464	12,453
Customer deposits	40,554	10,595
Net cash used by operating activities	<u>(37,371)</u>	<u>(750,376)</u>
Cash flows from noncapital financing activities:		
Property taxes received	<u>1,463,836</u>	<u>1,420,102</u>
Cash flows from capital and related financing activities:		
Property taxes and assessments received	622,008	720,023
Acquisition and construction of utility plant	(3,235,264)	(3,171,678)
Proceeds from loan payable	1,500,000	-
Principal paid on bonds and loans payable	(922,398)	(735,969)
Interest paid on bonds and loans payable	(151,030)	(156,606)
Proceeds from settlement of litigation	170,800	-
Capital contributions received	143,049	120,272
Proceeds from disposition of equipment	29,205	16,506
Other capital and related financing cash flows	59,769	(4,629)
Net cash used by capital and related financing activities	<u>(1,783,861)</u>	<u>(3,212,081)</u>
Cash flows from investing activities:		
Proceeds of matured certificates of deposit	585,000	2,278,000
Purchases of certificates of deposit	-	(99,000)
Purchases of marketable securities	(9,507,622)	(17,957,802)
Proceeds from sales and maturities of marketable securities	12,713,482	15,500,000
Investment income received	933,927	1,134,770
Net cash provided by investing activities	<u>4,724,787</u>	<u>855,968</u>
Net increase (decrease) in cash	4,367,391	(1,686,387)
Cash, beginning of year	<u>7,675,304</u>	<u>9,361,691</u>
Cash, end of year	<u>\$ 12,042,695</u>	<u>7,675,304</u>

Continued

VALLEY CENTER MUNICIPAL WATER DISTRICT

Statements of Cash Flows, Continued

Years ended June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash, end of year:		
Cash and cash equivalents - current assets	\$ 7,601,223	7,201,966
Cash and cash equivalents - restricted assets	<u>4,441,472</u>	<u>473,338</u>
	<u>\$ 12,042,695</u>	<u>7,675,304</u>
Noncash capital and related financing activities:		
Customer contributions of utility plant	<u>\$ 1,146,404</u>	<u>238,413</u>
Customer payments of annexation fees	<u>\$ 1,627</u>	<u>80,661</u>
Noncash investing activities:		
Certificates of deposit matured and rolled over	<u>\$ -</u>	<u>99,000</u>
Noncash investment income	<u>\$ 210,259</u>	<u>317,089</u>

See accompanying notes to financial statements.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements

June 30, 1999 and 1998

(1) Summary of Significant Accounting Policies

(a) Description of Reporting Entity

The Valley Center Municipal Water District (the District) is a governmental corporation governed by an elected five-member board of directors. The District was incorporated July 12, 1954, under the provisions of the California Municipal Water District Act of 1911. The District's 100 square mile service area lies in northern San Diego County and the majority of its sales are to agricultural users. The District's offices are located in Valley Center, California.

In keeping its books and records, the District has established various self-balancing groups of accounts in order to enhance internal control and to further the attainment of other management objectives. These groups of accounts, which are subfunds of the reporting entity, are identified in the District's books and records as the General Fund, Lower Moosa Sewer Treatment Fund, Moosa Expansion and Reclamation Fund, Improvement District U-12 Fund, Community Facilities District No. 1 Fund, Skyline Ranch Sewer Fund and Woods Valley Ranch Sewer Fund. All significant intersubfund transactions and accounts are eliminated in the combination of the accounts of the subfunds for the financial statements of the reporting entity.

In addition to the above subfunds, the District has established the Assessment District No. 96-1 Lower Moosa Canyon Fund (AD 96-1) to account for the special assessment bonds described in Note 10. The financial position and results of operations of AD 96-1 are excluded from these financial statements.

(b) Basis of Accounting

The District's financial statements are prepared on the accrual basis of accounting with a "capital maintenance" measurement focus. Accordingly, all assets and liabilities are reflected within the balance sheet with the equity section representing "net total assets."

(c) Accounting and Financial Reporting Standards

The District applies all relevant pronouncements of the Governmental Accounting Standards Board (GASB) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

(d) Cash and Cash Equivalents

Cash and cash equivalents include deposits in money market mutual funds (SEC registered), deposits in external investment pools, and marketable securities that mature within three months of purchase. Such marketable securities and deposits in money market funds are carried at fair value. Investment pool deposits are carried at the District's proportionate share of the fair value of each pool's underlying portfolio.

(e) Marketable Securities

Marketable securities are carried at fair value.

(f) Water Sales

Water sales revenue is recorded when the service is rendered, including an estimated amount for unbilled service.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(g) Allowance for Doubtful Accounts

The District recognizes bad debt expense relating to receivables when it is probable that the accounts will be uncollectible. Water and sewer accounts receivable at June 30, 1999 and 1998, have been reduced by an allowance for doubtful accounts of \$6,167 and \$6,458, respectively.

(h) Inventories

Materials inventory is stated at the lower of current average cost or market. Water inventory is stated at cost.

(i) Utility Plant and Depreciation

Assets acquired from District funds and contributed cash are recorded at cost. Contributions in kind are recorded at fair values based upon engineering estimates of costs to construct. Major additions and betterments are capitalized, and expenditures for repairs and maintenance are charged to operations. Depreciation on contributed assets is charged to operations and closed to contributed capital. Depreciation is computed using the straight-line method at rates recommended by the State Controller's Office, which are based upon the estimated useful lives of the assets. The ranges of the estimated useful lives of the assets are as follows:

Transmission and distribution system	10-40 years
Treatment plants	40 years
General plant	3-40 years

(j) Restricted Assets

Amounts shown as restricted assets have been restricted by bond indenture, by District Board of Directors action, by law, or by contractual obligations to be used for specified purposes, such as service of bonded and other taxpayer-approved debt, construction of utility plant, and payment of certain employee benefits.

(k) Capitalized Interest

Interest costs, less interest earned on related tax-exempt borrowings, are capitalized during the construction period of major utility plant additions. The capitalized interest is recorded as part of the asset to which it is related and is depreciated over the estimated useful life of the related asset. Capitalized interest during the year ended June 30, 1999 was \$43,762. No interest was capitalized during the year ended June 30, 1998.

(l) Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees.

(m) Retirees' Health Benefits Plan Expense

Expense is recognized on the pay-as-you-go basis, and is more fully described in Note 9.

(n) Capital Contributions

Capital contributions are recorded when capacity charges are collected, Federal and State construction grants are received, annexation fees are paid by property owners on behalf of the District, or the District accepts contributions of utility plant in kind. Capacity charges are paid by new customers prior to connecting to the District's system. Such charges are periodically adjusted based upon changes in construction costs and other factors, and are intended to compensate the District for a new customer's equitable share of current and future system capacity.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(o) Budgetary Information

The District prepares and adopts an annual budget for operations, debt service, and capital additions, but budgetary information is not presented because the District is not legally required to adopt and adhere to a budget.

(p) Property Tax Calendar

Property taxes, including assessments, are billed by San Diego County (County) to property owners. The District's property tax calendar for the fiscal year ended June 30, 1999, was as follows:

January 1, 1998	Lien date
December 10, 1998	Due date for first installment (50%)
April 10, 1999	Due date for final installment (50%)

The County collects the taxes from the property owners and remits the funds to the District intermittently during the year. The District has an arrangement with the County whereby the County remits taxes which are delinquent as of each June 30 to the District in exchange for the right to retain the delinquent taxes, penalties, and interest when these amounts are subsequently collected.

(2) Cash and Investments

(a) Authorized Investment Instruments

The District is legally empowered by statute and ordinance to invest in obligations of the United States, its agencies and instrumentalities, time certificates of deposit at commercial banks and savings and loans when insured or collateralized in accordance with law, the State of California Local Agency Investment Fund, the County of San Diego Investment Pool, bonds issued by the District and shares of beneficial interest issued by a diversified management company as authorized by Government Code Section 53601(k). Current policy provides that no investments with maturities greater than five years shall be acquired. Investments with maturities of greater than one year are limited to 30% of the total of investments and investable cash and the total invested in obligations of United States agencies and instrumentalities is limited to 50% of the total of investments and investable cash.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(b) Cash

(i) Summary

Cash for purposes of this note is summarized as follows at June 30:

	<u>1999</u>	<u>1998</u>
Cash and cash equivalents - current assets	\$ 7,601,223	7,201,966
Cash and cash equivalents - restricted assets	4,441,472	473,338
Certificates of deposit - current assets	<u>-</u>	<u>585,000</u>
	<u>\$ 12,042,695</u>	<u>8,260,304</u>

Cash consisted of the following at June 30:

Deposits with financial institutions	108,737	665,796
Deposits in money market mutual fund	-	55,878
Deposits with the State of California Local Agency Investment Fund	12,004,488	7,579,830
Petty cash	800	800
Outstanding checks	<u>(71,330)</u>	<u>(42,000)</u>
	<u>\$ 12,042,695</u>	<u>8,260,304</u>

(ii) Deposits with Financial Institutions

Deposits with financial institutions at June 30, 1999, are fully insured.

(iii) Deposits with State of California Local Agency Investment Fund

The total amount in the District's account with the State of California Local Agency Investment Fund (State LAIF) can be withdrawn on demand without penalty. Such a withdrawal would not include a pro rata share of any unrealized appreciation or uncollected income on the State LAIF's investments. The State LAIF is administered by the State of California, Office of the Treasurer.

(c) Marketable Securities

Marketable securities for purposes of this note are summarized as follows at June 30:

	<u>1999</u>	<u>1998</u>
Marketable securities - current assets	\$ -	749,375
Marketable securities - restricted assets	<u>11,625,167</u>	<u>13,962,292</u>
	<u>\$ 11,625,167</u>	<u>14,711,667</u>

Marketable securities are as follows at June 30:

	<u>1999</u>	<u>1998</u>
U.S. Treasury bills and notes	\$ 1,002,190	6,034,808
U.S. agency obligations	<u>10,622,977</u>	<u>8,676,859</u>
	<u>\$ 11,625,167</u>	<u>14,711,667</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

The District's marketable securities are held by its broker and fully insured. The additional coverage beyond the \$500,000 Securities Investor Protection Corporation (SIPC) limit is subject to and follows the terms, conditions and limitations of SIPC coverage.

(3) Inventories

Inventories are as follows at June 30:

	<u>1999</u>	<u>1998</u>
Water inventory	\$ 108,959	101,301
Materials inventory	<u>188,885</u>	<u>169,879</u>
	\$ <u>297,844</u>	<u>271,180</u>

(4) Restricted Assets

Restricted assets are as follows at June 30:

	<u>1999</u>	<u>1998</u>
Restricted for debt service:		
Cash and cash equivalents	\$ 216,044	380,667
Other receivables	<u>32,954</u>	<u>34,593</u>
Total for debt service	<u>248,998</u>	<u>415,260</u>
Restricted for construction:		
Cash and cash equivalents	4,225,428	92,671
Marketable securities	<u>10,633,831</u>	<u>13,219,522</u>
Total for construction	<u>14,859,259</u>	<u>13,312,193</u>
Restricted for employee benefits:		
Marketable securities	<u>991,336</u>	<u>742,770</u>
Total restricted assets	\$ <u>16,099,593</u>	<u>14,470,223</u>

(5) Utility Plant

Changes in utility plant for the year ended June 30, 1999, are as follows:

	Balance <u>June 30, 1998</u>	Additions	Deletions	Balance <u>June 30, 1999</u>
Land	\$ 1,129,722	7,236	-	1,136,958
Transmission and distribution system	61,905,598	5,886,475	342,102	67,449,971
General plant	2,910,284	690,441	335,364	3,265,361
Annexation fees	<u>786,185</u>	<u>-</u>	<u>-</u>	<u>786,185</u>
	66,731,789	6,584,152	677,466	72,638,475
Less accumulated depreciation	<u>29,781,650</u>	<u>1,803,750</u>	<u>536,123</u>	<u>31,049,277</u>
Net utility plant in service	36,950,139	4,780,402	141,343	41,589,198
Construction in progress	<u>4,379,611</u>	<u>2,637,337</u>	<u>5,160,358</u>	<u>1,856,590</u>
Net utility plant	\$ <u>41,329,750</u>	<u>7,417,739</u>	<u>5,301,701</u>	<u>43,445,788</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(6) Long-Term Debt

(a) General Obligation Bonds Payable

General obligation bonds are payable from assets restricted for that purpose and are secured by property tax revenues collected from within the General District or Improvement District U-12. A summary of general obligation bonds payable follows:

	Interest rate	Fiscal year maturities (varying amounts)	Outstanding June 30, 1998	Retired 1998-1999	Outstanding June 30, 1999
General District Bonds:					
1967, Series B	5.00%	1999	\$ 110,000	110,000	-
Improvement District Bonds:					
U-12, 1968	6.25%	1999-2000	<u>150,000</u>	<u>75,000</u>	<u>75,000</u>
Total			<u>\$ 260,000</u>	<u>185,000</u>	<u>75,000</u>

Certain of the bonds are callable by the District at par plus a premium. The District has not exercised these call provisions.

Future debt service requirements for the above bonds are as follows:

Fiscal year	Principal	Interest	Total
2000	\$ <u>75,000</u>	<u>2,344</u>	<u>77,344</u>

(b) Revenue Bonds Payable

On June 29, 1993, the District issued to a bank \$1,400,000 of water revenue bonds, the proceeds of which were used to pay off a previous loan which had been obtained to finance legally required water system improvements. Revenue bonds outstanding at June 30, 1999 and 1998, are \$1,060,000 and \$1,230,000, respectively. Varying amounts of principal plus interest currently at 4.81% are payable semiannually with the final scheduled maturity date July 1, 2013. Bonds of \$125,000 which were to mature on July 1, 2013, and January 1, 2013 were called and redeemed at par during the year ended June 30, 1999. The final maturity date for the currently outstanding bonds is July 1, 2012. Interest is payable at 62% of the bank's prime rate, but not to exceed 12%. The net water revenues of the District are pledged to pay the principal and interest on the bonds, and the bonds are subject to call and redemption prior to maturity on any date at par plus accrued interest to the redemption date.

The bond resolution requires that gross revenues from the operation of the District be at least sufficient to pay all current maintenance and operating expenses, excluding depreciation and interest, and that the net revenue must exceed, by at least 1.10 times, the amount required for annual debt service of the bonds. The District has satisfied these requirements.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

Future debt service requirements at the current interest rate for the above bonds are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 50,000	24,892	74,892
2001	50,000	47,980	97,980
2002	60,000	45,455	105,455
2003	65,000	42,569	107,569
2004	70,000	39,322	109,322
Thereafter	<u>765,000</u>	<u>178,093</u>	<u>943,093</u>
	\$ <u>1,060,000</u>	<u>378,311</u>	<u>1,438,311</u>

(c) Loans Payable

Loans payable are as follows at June 30:

	<u>1999</u>	<u>1998</u>
Municipal Finance Corporation original amount \$1,753,844, on July 31, 1992. Varying amounts of principal plus interest at 6.44% payable semiannually from assets restricted for that purpose and secured by property tax revenues collected from within the General District, final payment due July 31, 1999.	\$ 199,877	584,575
Municipal Finance Corporation original amount \$1,500,000, on December 28, 1998, to partially finance the Moosa expansion project. Interest at 4.25% payable semiannually and principal payable December 28, 2003, from assets restricted for that purpose and secured by capacity charges collected for the Moosa expansion.	1,500,000	-
California Bank and Trust original amount \$1,500,000, on June 20, 1984. Varying amounts of principal payable annually plus interest currently at 5.12% payable semiannually from assets restricted for that purpose and secured by property tax revenues collected from within Community Facilities District No. 1, final payment due June 15, 2000. Interest is payable at 66% of the bank's prime rate, but not to exceed 12%.	<u>16,729</u>	<u>199,429</u>
Total loans payable	\$ <u>1,716,606</u>	<u>784,004</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

Future debt service requirements for the above loans are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 216,606	71,042	287,648
2001	-	63,750	63,750
2002	-	63,750	63,750
2003	-	63,750	63,750
2004	<u>1,500,000</u>	<u>31,875</u>	<u>1,531,875</u>
	\$ <u>1,716,606</u>	<u>294,167</u>	<u>2,010,773</u>

(d) Annexation Fees Payable

In 1960 and 1967, the District annexed certain uninhabited territory and thereby incurred annexation charges of \$786,185 payable to the Metropolitan Water District of Southern California (MWD) and the San Diego County Water Authority. The unpaid balances of such charges to MWD at June 30, 1999 and 1998, are \$13,478 and \$15,105, respectively. The charges are paid by property tax owners through property tax levies collected by the County of San Diego and remitted directly to MWD. The District accounts for the periodic reduction in the recorded annexation fee liability as contributed capital.

(e) Retirees' Health Benefits Plan Liability

On January 16, 1995, the District's Board of Directors established the Valley Center Municipal Water District Retirees' Health Benefits Plan. Under the terms of the Plan, further described in Note 9, the District's liability, payable from assets restricted for that purpose, to employees or for the benefit of Plan participants at June 30, 1999 and 1998, was \$991,336 and \$742,769, respectively. The liability will become payable upon the sooner of Plan termination or the commencement of the payment of participants' health insurance premiums under the Plan.

(f) Summary

Long-term debt is summarized as follows at June 30:

	<u>1999</u>	<u>1998</u>
General obligation bonds payable	\$ 75,000	260,000
Revenue bonds payable	1,060,000	1,230,000
Loans payable	<u>1,716,606</u>	<u>784,004</u>
Total bonds and loans payable	2,851,606	2,274,004
 Annexation fees payable	 13,478	 15,105
 Retirees' health benefits plan liability	 <u>991,336</u>	 <u>742,769</u>
Total long-term debt	3,856,420	3,031,878
 Less current installments of bonds payable from current assets	 (50,000)	 (45,000)
 Less current installments of bonds and loans payable from restricted assets	 <u>(291,606)</u>	 <u>(663,709)</u>
	\$ <u>3,514,814</u>	<u>2,323,169</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

Future minimum debt service requirements for bonds and loans payable are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 341,606	98,278	439,884
2001	50,000	111,730	161,730
2002	60,000	109,205	169,205
2003	65,000	106,319	171,319
2004	1,570,000	71,197	1,641,197
Thereafter	<u>765,000</u>	<u>178,093</u>	<u>943,093</u>
	\$ <u>2,851,606</u>	<u>674,822</u>	<u>3,526,428</u>

(7) Contributed Capital

Changes in contributed capital are as follows for the year ended June 30:

	<u>1999</u>	<u>1998</u>
Balance, beginning of year	\$ 13,252,586	13,210,791
Capital contributions	1,291,080	439,346
Depreciation on contributed assets	<u>(405,430)</u>	<u>(397,551)</u>
Balance, end of year	\$ <u>14,138,236</u>	<u>13,252,586</u>

(8) Employees' Retirement Plan

The Valley Center Municipal Water District Retirement Plan 002 (Plan 002) is a single-employer defined contribution plan established July 1, 1979, by the District as sponsor to provide retirement benefits to its employees (excluding members of the Board of Directors) under Water Code Section 71595. Plan 002 is administered by a committee appointed by the District's Board of Directors. The sponsor also appoints Plan 002 trustees. Plan 002 trustees, through the committee, direct investments and accounting.

Generally, all full-time employees are required to participate in Plan 002 upon the date employment commences. Vesting is based on years of service, with 20% vesting for each year of service and 100% vesting after 5 or more years of service. Plan income is allocated to accounts of individual participants at year-end by a formula, which is based on beginning of year balances, plus contributions for the year. The District retains the right to make any amendments to Plan 002 which do not cause any assets to be diverted to any purpose other than the exclusive benefit of Plan 002 beneficiaries.

Plan 002 provides for yearly sponsor contributions equal to 19% of eligible employees' base compensation. Participant contributions are not required, but participants may voluntarily contribute up to 10% of their compensation.

The District's contribution to Plan 002 for the years ended June 30, 1999 and 1998, amounted to \$474,298 and \$472,301, respectively. No contributions were made by individual participants in either year.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(9) Retirees' Health Benefits Plan

(a) General Plan Description

The District's Board of Directors adopted the Retirees' Health Benefits Plan (Plan) on January 16, 1995, for the benefit of all individuals (excluding members of the Board of Directors) employed by the District on or after July 1, 1994. The Plan is permitted under Government Code Section 53200 et seq. and generally provides that the District will pay all or a portion of the premiums for certain postemployment health insurance coverage for participants. The Plan administrator is the advisory committee for the District's Retirement Plan 002 described in Note 8. The District may amend or terminate the plan, subject to the vested contract rights of employees and participants, on 120 days notice to such individuals.

(b) Plan Benefits

After an eligible employee (and a dependent spouse for an electing eligible employee) begins participation in the Plan and until the employee reaches Medicare-eligible age, the District will pay all or a portion of the premium for health insurance coverage under its group plan for current employees. After Medicare-eligible age is reached, the District will pay indefinitely all or a portion of the premium for coverage under the Medicare supplement of its group plan for current employees plus coverage under Medicare Part B.

An eligible employee must have a sufficient number of years of service which, when added to the employee's attained age at the time of termination of employment with the District, would total 65 combined years. The number of such combined years determines (subject to the participation options discussed in the following paragraph) the portion of the premiums payable by the District under the Plan. For those employees with 65 combined years the District's portion is 50% and the maximum District portion is 100% for those employees with 75 combined years. For each combined year between 65 and 75, the District's portion is increased 5%.

Prior to beginning participation in the Plan, an eligible employee must irrevocably elect one of three participation options. If the employee elects to begin participation in the Plan at age 55 (minimum age), the District will pay no premiums for a dependent spouse. If the election is to begin participation at age 58, the District will pay a reduced portion of the premiums for a dependent spouse which would otherwise be payable after application of the combined years provisions discussed previously. If the election is to begin participation at age 60, the District will pay 100% of the portion of the premium otherwise payable for a dependent spouse.

Participants must pay any required premium portion to the Plan before the beginning of each period of benefits coverage. The Plan expressly provides that the administrator is not required to maintain any fund or segregate any amount for the benefit of any participant. As of June 30, 1999, no one has begun participation in the Plan.

(c) Plan Funding and Accounting

The Plan provides that the premium cost of benefits is to be paid solely from the general assets of the District and there is no Plan requirement for the District to advance-fund Plan benefits, thus the District intends to account for the Plan on a pay-as-you-go basis. The District's Board of Directors, wholly in its discretion and based in part on the nonbinding recommendation of consulting actuaries, periodically resolves to restrict cash and cash equivalents for the payment of Plan benefits. No assets have been transferred to the Plan administrator. The Board presently intends to similarly restrict or to pay to the Plan administrator for all subsequent years an annual amount that is no more than 8% of Retirement Plan 002 covered payroll. If in the future these accumulated amounts appear insufficient to pay for Plan benefits, it is presently the Board's intention that the Plan would be amended to reduce its benefits. The present intentions of the Board are described herein solely for informational purposes and do not bind current and future members of the District's Board of Directors.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(d) Plan Liability and Expense

The Plan requires that any separately accumulated funds will, upon Plan discontinuance or termination and after payment of necessary expenses, be distributed equitably among the District's then active employees, eligible employees, and Plan participants. As described in Note 6(e), the Board restricted assets of \$991,336 and \$742,769 as of June 30, 1999 and 1998, respectively, for the payment of benefits under the Plan. Management construes the provisions of the Plan to require that funds so restricted cannot revert to the District. Recorded expense for the Plan for the years ended June 30, 1999 and 1998, amounted to \$248,567 and \$235,235, respectively.

(10) Special Assessment Bonds

On February 5, 1997, Valley Center Municipal Water District Assessment District No. 96-1 (AD 96-1) issued \$1,743,654 of limited obligation improvement bonds pursuant to the provisions of the Municipal Improvement Act of 1913 and the Improvement Bond Act of 1915. Under the Acts, the District is not obligated to repay the AD 96-1 bonds and the District does not intend in any manner to assume responsibility for the repayment of such debt. AD 96-1 bonds payable at June 30, 1999 and 1998, amounted to \$1,690,000 and \$1,738,654, respectively.

The bonds and interest are paid from annual special assessments on property within AD 96-1. The annual assessments will be billed to and collected from the AD 96-1 property owners along with other property taxes and assessments and remitted to the District. The District remits the annual assessments as well as any prepaid assessments received from property owners by the District to the AD 96-1 trustee (a commercial trust company) for eventual payment to the bondholders.

The bond proceeds were used to establish reserve funds, pay bond issuance costs, refund to certain AD 96-1 property owners previous costs advanced, and expand the Lower Moosa Canyon water reclamation facility. This reclamation facility project was completed during the year ended June 30, 1999, and the District recorded an in kind capital contribution from AD 96-1 of \$817,993.

(11) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District manages these risks with its participation in the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA is a risk-pooling self-insurance authority created under the provisions of the California Government Code for the purpose of providing insurance coverage for its 291 member districts. The JPIA purchases excess insurance from commercial insurance carriers to reduce its exposure to large losses. The JPIA administers and settles all claims under the various contracts.

The District pays annual premiums for its liability (auto, general, and public officials), property loss, workers' compensation and fidelity bond coverage. They are subject to retrospective adjustments based on claims experience. The nature and amounts of these adjustments cannot be estimated and are charged or credited to expense as invoiced. The District's JPIA insurance expense for the years ending June 30, 1999 and 1998, amounted to \$159,896 and \$123,547, respectively. There were no instances in the past three years where a settlement exceeded the District's coverage.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(12) Other Nonoperating Revenues

Other nonoperating revenues are as follows on June 30:

	<u>1999</u>	<u>1998</u>
Gain on disposition of equipment	\$ 29,205	16,506
Gain on settlement of litigation against the State of California	170,800	-
Other	<u>6,673</u>	<u>45,480</u>
	<u>\$ 206,678</u>	<u>61,986</u>

From September 15, 1980 through June 29, 1993, the District had a loan payable to the State of California Department of Water Resources. The interest rate on the loan was increased, retroactive to September 15, 1980, by the State Treasurer in 1993. The District paid off this loan, including retroactive interest of \$278,510, which was expensed, on June 29, 1993, in connection with the issuance of the revenue bonds described in Note 6(b). In 1995, the District joined with several other California governmental units that had similarly been subjected to the retroactive interest rate increase in seeking to recover the retroactive interest paid. On October 26, 1998, the State of California paid the District \$170,800 in full settlement of the District's claim.

(13) Other Nonoperating Expenses

Other nonoperating expenses are as follows at June 30:

	<u>1999</u>	<u>1998</u>
Loss on abandonment of utility plant	\$ 141,343	154
Debt service expenses	295	5,502
Loss on work in progress for others	<u>-</u>	<u>5,657</u>
	<u>\$ 141,638</u>	<u>11,313</u>

(14) Economic Dependency

All water sold by the District is purchased from the San Diego County Water Authority. All energy, (electricity and natural gas) needed by the District for pumping and other uses, is delivered through the transmission facilities of San Diego Gas & Electric Co.

(15) Commitments and Contingencies

(a) Contracts

The District entered into several contracts for engineering and construction of additions to utility plant. Unfulfilled commitments under open contracts as of June 30, 1999, are summarized as follows:

Total open contracts	\$ 192,346
Costs incurred as of June 30, 1999	<u>13,648</u>
Remaining contractual commitments	<u>\$ 178,698</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(b) Environmental Liability

The District has been designated as a PRP (potentially responsible party) with respect to the cleanup of hazardous waste and other environmental contamination at the Chatham Brothers Barrel Yard site, which is a site listed on the State Priority List for the State of California, in Escondido, California. The District joined a group of other PRP's and the group is currently investigating the amount of remedial costs necessary to clean up the site. Although the total cost for cleanup cannot be estimated with certainty at this time, estimates have ranged from \$8,000,000 to \$31,000,000. The District's share of the total cost of cleanup has most recently been determined to be .08% (.0008), but its share will increase if other PRP's should fail to participate at their determined level. The District has determined that a future liability of \$38,943 is probable at this time and, accordingly, has accrued this amount as a liability as of June 30, 1999.

(c) Litigation

The District is named as defendant in various pending legal actions. Management is of the opinion that any potential liability which could result, if unfavorable decisions are rendered in these pending legal actions, would not have a material effect on the financial statements.

(d) Year 2000 Issue

The District has been working to resolve the potential impact of the year 2000 on the ability of the District's computerized information technology (IT) and non-IT systems to accurately process information that may be date-sensitive. Any of the District's systems that recognize a date using "00" as the year 1900 rather than 2000 could result in errors or system failures. The District has completed the awareness, assessment, remediation, and validation/testing stages for its internal mission-critical systems and management expects that minimal, if any, business disruption will occur as a result of year 2000 issues for those systems.

The District relies on third parties to provide water, utilities, and other products and services. The District is in the process of enhancing existing normal business contingency plans to address potential year 2000 issues based on assessments of third parties and other outside risks. There can be no assurance that there will not be an adverse effect on the District if third parties, such as government agencies, hardware and software vendors, financial institutions or utility companies, do not convert their systems in a timely manner and in a way that is compatible with the District's systems. However, management anticipates that ongoing communication with and assessment of these third parties will minimize these risks, and expects minimal, if any, business disruption at the turn of the century.



COMBINING SCHEDULES

VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Balance Sheet Schedules

June 30, 1999 and 1998

Assets	1999					
	Total	General subfund	Lower Moosa sewer subfunds	Skyline Ranch sewer subfund	Woods Valley Ranch sewer subfund	Debt service subfunds
Current assets:						
Cash and cash equivalents	\$ 7,601,223	7,782,656	(183,972)	2,539	-	-
Accounts receivable - water and sewer, net	3,360,898	3,360,898	-	-	-	-
Interest receivable	330,257	330,257	-	-	-	-
Other receivables	38,313	38,313	-	-	-	-
Inventories	297,844	297,844	-	-	-	-
Prepaid expenses	89,051	89,051	-	-	-	-
Deposits	61,726	61,726	-	-	-	-
Work in progress for others	126,001	126,001	-	-	-	-
Total current assets	<u>11,905,313</u>	<u>12,086,746</u>	<u>(183,972)</u>	<u>2,539</u>	<u>-</u>	<u>-</u>
Restricted assets:						
Cash and cash equivalents	4,441,472	3,714,416	612,497	100,368	4,890	9,301
Other receivables	32,954	-	-	-	-	32,954
Marketable securities	11,625,167	11,625,167	-	-	-	-
Total restricted assets	<u>16,099,593</u>	<u>15,339,583</u>	<u>612,497</u>	<u>100,368</u>	<u>4,890</u>	<u>42,255</u>
Utility plant:						
Total utility plant in service	72,638,475	61,333,421	8,246,795	206,177	-	2,852,082
Less accumulated depreciation	31,049,277	27,839,492	1,788,435	85,630	-	1,335,720
Net utility plant in service	<u>41,589,198</u>	<u>33,493,929</u>	<u>6,458,360</u>	<u>120,547</u>	<u>-</u>	<u>1,516,362</u>
Construction in progress	1,856,590	1,669,021	165,082	-	22,487	-
Net utility plant	<u>43,445,788</u>	<u>35,162,950</u>	<u>6,623,442</u>	<u>120,547</u>	<u>22,487</u>	<u>1,516,362</u>
	<u>\$ 71,450,694</u>	<u>62,589,279</u>	<u>7,051,967</u>	<u>223,454</u>	<u>27,377</u>	<u>1,558,617</u>

Continued

VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Balance Sheet Schedules, Continued

June 30, 1999 and 1998

Liabilities and Fund Equity	1999					
	Total	General subfund	Lower Moosa sewer subfunds	Skyline Ranch sewer subfund	Woods Valley Ranch sewer subfund	Debt service subfunds
Current liabilities (payable from current assets):						
Current installments of revenue bonds payable	\$ 50,000	50,000	-	-	-	-
Accounts payable	3,189,033	3,189,033	-	-	-	-
Accrued payroll	86,612	86,612	-	-	-	-
Accrued vacation and sick leave	660,260	660,260	-	-	-	-
Customer deposits	274,904	260,904	14,000	-	-	-
Total current liabilities (payable from current assets)	<u>4,260,809</u>	<u>4,246,809</u>	<u>14,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current liabilities (payable from restricted assets):						
Current installments of general obligation bonds payable	75,000	-	-	-	-	75,000
Current installments of loans payable	216,606	199,877	-	-	-	16,729
Accrued interest	6,484	5,340	-	-	-	1,144
Other liabilities	16,090	-	-	-	16,090	-
Total current liabilities (payable from restricted assets)	<u>314,180</u>	<u>205,217</u>	<u>-</u>	<u>-</u>	<u>16,090</u>	<u>92,873</u>
Long-term debt, excluding current installments:						
Revenue bonds payable	1,010,000	1,010,000	-	-	-	-
Loan payable (payable from restricted assets)	1,500,000	-	1,500,000	-	-	-
Annexation fees payable	13,478	13,478	-	-	-	-
Retirees' health benefits plan liability (payable from restricted assets)	991,336	991,336	-	-	-	-
Total long-term debt, excluding current installments	<u>3,514,814</u>	<u>2,014,814</u>	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>8,089,803</u>	<u>6,466,840</u>	<u>1,514,000</u>	<u>-</u>	<u>16,090</u>	<u>92,873</u>
Fund equity:						
Contributed capital	14,138,236	9,882,391	4,023,686	220,915	11,244	-
Retained earnings	49,222,655	46,240,048	1,514,281	2,539	43	1,465,744
Total fund equity	<u>63,360,891</u>	<u>56,122,439</u>	<u>5,537,967</u>	<u>223,454</u>	<u>11,287</u>	<u>1,465,744</u>
	<u>\$ 71,450,694</u>	<u>62,589,279</u>	<u>7,051,967</u>	<u>223,454</u>	<u>27,377</u>	<u>1,558,617</u>

Continued

VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Balance Sheet Schedules, Continued

June 30, 1999 and 1998

<u>Assets</u>	1998				
	Total	General subfund	Lower Moosa sewer subfunds	Skyline Ranch sewer subfund	Debt service subfunds
Current assets:					
Cash and cash equivalents	\$ 7,201,966	7,523,696	(342,907)	21,177	-
Certificates of deposit	585,000	585,000	-	-	-
Marketable securities	749,375	749,375	-	-	-
Accounts receivable - water and sewer, net	2,299,448	2,299,448	-	-	-
Interest receivable	239,358	239,358	-	-	-
Other receivables	48,602	48,602	-	-	-
Inventories	271,180	271,180	-	-	-
Prepaid expenses	81,961	81,961	-	-	-
Deposits	42,975	42,975	-	-	-
Work in progress for others	102,863	102,863	-	-	-
Total current assets	<u>11,622,728</u>	<u>11,944,458</u>	<u>(342,907)</u>	<u>21,177</u>	<u>-</u>
Restricted assets:					
Cash and cash equivalents	473,338	282,823	-	92,671	97,844
Other receivables	34,593	-	-	-	34,593
Marketable securities	13,962,292	13,962,292	-	-	-
Total restricted assets	<u>14,470,223</u>	<u>14,245,115</u>	<u>-</u>	<u>92,671</u>	<u>132,437</u>
Utility plant:					
Total utility plant in service	66,731,789	59,410,208	4,263,322	206,177	2,852,082
Less accumulated depreciation	29,781,650	26,619,009	1,813,897	80,715	1,268,029
Net utility plant in service	<u>36,950,139</u>	<u>32,791,199</u>	<u>2,449,425</u>	<u>125,462</u>	<u>1,584,053</u>
Construction in progress	<u>4,379,611</u>	<u>1,687,317</u>	<u>2,692,294</u>	<u>-</u>	<u>-</u>
Net utility plant	<u>41,329,750</u>	<u>34,478,516</u>	<u>5,141,719</u>	<u>125,462</u>	<u>1,584,053</u>
	<u>\$ 67,422,701</u>	<u>60,668,089</u>	<u>4,798,812</u>	<u>239,310</u>	<u>1,716,490</u>

Continued

VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Balance Sheet Schedules, Continued

June 30, 1999 and 1998

<u>Liabilities and Fund Equity</u>	1998				
	Total	General subfund	Lower Moosa sewer subfunds	Skyline Ranch sewer subfund	Debt service subfunds
Current liabilities (payable from current assets):					
Current installments of revenue bonds payable	\$ 45,000	45,000	-	-	-
Accounts payable	2,465,634	2,465,634	-	-	-
Accrued payroll	72,097	72,097	-	-	-
Accrued vacation and sick leave	646,311	646,311	-	-	-
Customer deposits	234,350	222,600	11,750	-	-
Total current liabilities (payable from current assets)	<u>3,463,392</u>	<u>3,451,642</u>	<u>11,750</u>	<u>-</u>	<u>-</u>
Current liabilities (payable from restricted assets):					
Current installments of general obligation bonds payable	185,000	110,000	-	-	75,000
Current installments of loans payable	478,709	384,698	-	-	94,011
Accrued interest	19,390	16,985	-	-	2,405
Total current liabilities (payable from restricted assets)	<u>683,099</u>	<u>511,683</u>	<u>-</u>	<u>-</u>	<u>171,416</u>
Long-term debt, excluding current installments:					
General obligation bonds payable (payable from restricted assets)	75,000	-	-	-	75,000
Revenue bonds payable	1,185,000	1,185,000	-	-	-
Loans payable (payable from restricted assets)	305,295	199,877	-	-	105,418
Annexation fees payable	15,105	15,105	-	-	-
Retirees' health benefits plan liability (payable from restricted assets)	742,769	742,769	-	-	-
Total long-term debt, excluding current installments	<u>2,323,169</u>	<u>2,142,751</u>	<u>-</u>	<u>-</u>	<u>180,418</u>
Total liabilities	<u>6,469,660</u>	<u>6,106,076</u>	<u>11,750</u>	<u>-</u>	<u>351,834</u>
Fund equity:					
Contributed capital	13,252,586	9,779,931	3,254,522	218,133	-
Retained earnings	47,700,455	44,782,082	1,532,540	21,177	1,364,656
Total fund equity	<u>60,953,041</u>	<u>54,562,013</u>	<u>4,787,062</u>	<u>239,310</u>	<u>1,364,656</u>
	<u>\$ 67,422,701</u>	<u>60,668,089</u>	<u>4,798,812</u>	<u>239,310</u>	<u>1,716,490</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Schedules of Revenues, Expenses, and Changes in Retained Earnings

Years ended June 30, 1999 and 1998

	Year ended June 30, 1999					
	Total	General subfund	Lower Moosa sewer subfunds	Skyline Ranch sewer subfund	Woods Valley Ranch sewer subfund	Debt service subfunds
Operating revenues:						
Water sales and pumping charges	\$ 23,038,652	23,038,652	-	-	-	-
Meter installation fees	161,875	161,875	-	-	-	-
Sewer charges	449,749	-	417,008	32,741	-	-
Delinquency charges	131,720	131,720	-	-	-	-
Other customer fees and charges	112,902	112,902	-	-	-	-
Total operating revenues	<u>23,894,898</u>	<u>23,445,149</u>	<u>417,008</u>	<u>32,741</u>	<u>-</u>	<u>-</u>
Operating expenses:						
Cost of water sold	16,995,191	16,995,191	-	-	-	-
Energy and pumping costs	2,757,191	2,697,960	53,185	6,046	-	-
Field and systems operations	889,714	889,714	-	-	-	-
Water treatment and quality control	79,126	79,126	-	-	-	-
Sewer collection and treatment	221,390	-	190,859	30,531	-	-
Engineering	531,482	531,482	-	-	-	-
Maintenance	1,140,137	1,082,329	48,867	8,941	-	-
Depreciation	1,803,750	1,629,744	101,400	4,914	-	67,692
General and administrative	1,560,855	1,502,131	51,060	7,664	-	-
Total operating expenses	<u>25,978,836</u>	<u>25,407,677</u>	<u>445,371</u>	<u>58,096</u>	<u>-</u>	<u>67,692</u>
Net operating loss	<u>(2,083,938)</u>	<u>(1,962,528)</u>	<u>(28,363)</u>	<u>(25,355)</u>	<u>-</u>	<u>(67,692)</u>
Nonoperating revenues (expenses):						
Investment income	1,144,186	1,142,033	(2,442)	1,803	43	2,749
Property taxes and assessments	2,085,844	1,904,887	-	-	-	180,957
Other nonoperating revenues	206,678	206,678	-	-	-	-
Interest expense, net	(94,362)	(79,584)	-	-	-	(14,778)
Other nonoperating expenses	(141,638)	(85,617)	(55,873)	-	-	(148)
Net nonoperating revenues	<u>3,200,708</u>	<u>3,088,397</u>	<u>(58,315)</u>	<u>1,803</u>	<u>43</u>	<u>168,780</u>
Net income (loss)	1,116,770	1,125,869	(86,678)	(23,552)	43	101,088
Add back depreciation on contributed assets	<u>405,430</u>	<u>332,097</u>	<u>68,419</u>	<u>4,914</u>	<u>-</u>	<u>-</u>
Net income (loss) closed to retained earnings	1,522,200	1,457,966	(18,259)	(18,638)	43	101,088
Retained earnings, beginning of year	<u>47,700,455</u>	<u>44,782,082</u>	<u>1,532,540</u>	<u>21,177</u>	<u>-</u>	<u>1,364,656</u>
Retained earnings, end of year	<u>\$ 49,222,655</u>	<u>46,240,048</u>	<u>1,514,281</u>	<u>2,539</u>	<u>43</u>	<u>1,465,744</u>

Continued

VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Schedules of Revenues, Expenses, and Changes in Retained Earnings, Continued

Years ended June 30, 1999 and 1998

	Year ended June 30, 1998				
	Total	General subfund	Lower Moosa sewer subfunds	Skyline Ranch sewer subfund	Debt service subfunds
Operating revenues:					
Water sales and pumping charges	\$ 17,572,372	17,572,372	-	-	-
Meter installation fees	132,914	132,914	-	-	-
Sewer charges	437,531	-	379,189	58,342	-
Delinquency charges	151,704	151,704	-	-	-
Other customer fees and charges	95,649	95,649	-	-	-
Total operating revenues	<u>18,390,170</u>	<u>17,952,639</u>	<u>379,189</u>	<u>58,342</u>	<u>-</u>
Operating expenses:					
Cost of water sold	12,795,462	12,795,462	-	-	-
Energy and pumping costs	2,164,899	2,109,042	50,858	4,999	-
Field and systems operations	901,463	901,463	-	-	-
Water treatment and quality control	81,431	81,431	-	-	-
Sewer collection and treatment	203,910	-	175,197	28,713	-
Engineering	502,083	502,083	-	-	-
Maintenance	1,093,094	1,054,911	31,743	6,440	-
Depreciation	1,783,522	1,603,916	107,000	4,914	67,692
General and administrative	1,399,502	1,350,293	42,090	7,119	-
Total operating expenses	<u>20,925,366</u>	<u>20,398,601</u>	<u>406,888</u>	<u>52,185</u>	<u>67,692</u>
Net operating income (loss)	<u>(2,535,196)</u>	<u>(2,445,962)</u>	<u>(27,699)</u>	<u>6,157</u>	<u>(67,692)</u>
Nonoperating revenues (expenses):					
Investment income	1,451,859	1,439,374	4,359	1,523	6,603
Property taxes and assessments	2,140,125	1,916,530	-	-	223,595
Other nonoperating revenues	61,986	52,167	-	-	9,819
Interest expense	(145,547)	(119,334)	-	-	(26,213)
Other nonoperating expenses	(11,313)	(10,420)	-	-	(893)
Net nonoperating revenues	<u>3,497,110</u>	<u>3,278,317</u>	<u>4,359</u>	<u>1,523</u>	<u>212,911</u>
Net income (loss)	<u>961,914</u>	<u>832,355</u>	<u>(23,340)</u>	<u>7,680</u>	<u>145,219</u>
Add back depreciation on contributed assets	<u>397,551</u>	<u>324,837</u>	<u>67,800</u>	<u>4,914</u>	<u>-</u>
Net income closed to retained earnings	<u>1,359,465</u>	<u>1,157,192</u>	<u>44,460</u>	<u>12,594</u>	<u>145,219</u>
Retained earnings, beginning of year	<u>46,340,990</u>	<u>43,624,890</u>	<u>1,488,080</u>	<u>8,583</u>	<u>1,219,437</u>
Retained earnings, end of year	<u>\$ 47,700,455</u>	<u>44,782,082</u>	<u>1,532,540</u>	<u>21,177</u>	<u>1,364,656</u>



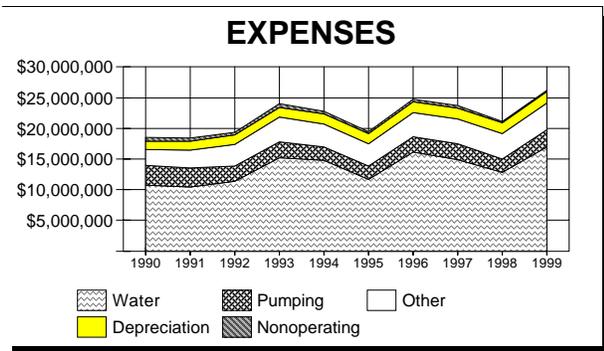
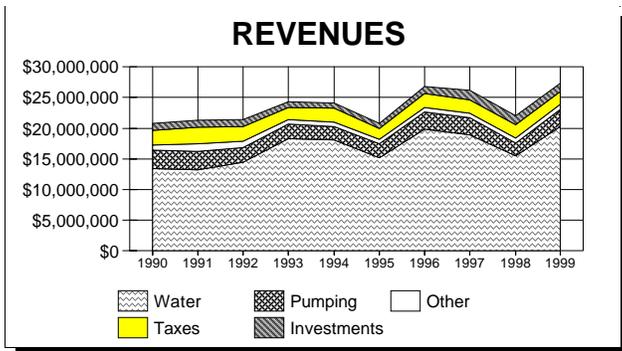
STATISTICAL SECTION

**TABLE I
REVENUES BY SOURCE
Last Ten Fiscal Years**

FISCAL YEAR ENDED	OPERATING REVENUES						NON-OPERATING REVENUES				TOTAL REVENUES
	WATER SALES (1)	PUMPING	METER INSTALLS	SEWER	DELINQUENT CHARGES	OTHER	PROPERTY TAXES	INVESTMENT INCOME (4)	OTHER		
1999	\$20,316,890	\$2,721,762	\$161,875	\$449,749	\$131,720	\$112,902	\$23,894,898	\$2,085,844	\$1,144,186	\$206,678	\$27,331,606
1998	15,482,401	2,089,971	132,914	437,531	151,704	95,649	18,390,170	2,140,125	1,451,859	61,986	22,044,140
1997	18,869,070 (2)	2,804,603	77,175	449,362	212,821	76,346	22,489,377	2,161,410	1,515,412	43,746	26,209,945
1996	19,863,773	2,736,839	84,676	391,710	234,512	71,459	23,382,969	2,243,932	1,092,160	68,702	26,787,763
1995	15,213,425	2,242,800	83,749	369,111	184,532	82,733	18,176,350	1,802,471	836,812	7,392	20,823,025
1994	18,080,490	2,140,070	80,835	360,177	231,720	66,269	20,959,561	2,266,810	680,189	149,065	24,055,625
1993	18,275,847	2,422,302	57,587	316,754	263,569	63,184	21,399,243	1,958,086	905,531	67,744	24,330,604
1992	14,475,487	2,382,045	25,520	326,075	150,030	509,931 (3)	17,869,088	2,413,787	1,096,086	13,400	21,392,361
1991	13,188,128	3,078,816	304,471	318,607	150,742	430,423 (3)	17,471,187	2,687,054	1,146,964	12,281	21,317,486
1990	13,403,936	2,974,460	225,027	309,177	98,521	246,626	17,257,747	2,417,149	1,089,398	27,827	20,792,121

- (1) A detailed schedule of Water Sales is presented on Table VIII.
(2) Net of \$954,799 credit for MWD rate refund.
(3) Includes \$455,161 and \$287,103 of penalties on excessive use for fiscal years ended 1992 and 1991 respectively.
(4) Restated for unrealized gains and losses pursuant to GASB Statement No. 31.

Source: Valley Center Municipal Water District



**TABLE II
EXPENSES BY FUNCTION
Last Ten Fiscal Years**

FISCAL YEAR ENDED	OPERATING EXPENSES						NON-OPERATING EXPENSES				TOTAL EXPENSES
	COST OF WATER SOLD	ENERGY AND PUMPING	WATER SYSTEMS OPERATION & MAINT.(1)	SEWER COLLECTION AND TREATMENT	ENGINEER.	GENERAL ADMIN. AND FINANCE	DEPRECIATION	TOTAL OPERATING EXPENSES	INTEREST ON DEBT	OTHER (3)	
1999	\$16,995,191	\$2,757,191	\$2,108,977	\$221,390	\$531,482	\$1,560,855	\$1,803,750	\$25,978,836	\$94,362	\$141,638	\$26,214,836
1998	12,795,462	2,164,899	2,075,988	203,910	502,083	1,399,502	1,783,522	20,925,366	145,547	11,313	21,082,226
1997	14,859,285 (2)	2,667,979	2,033,254	196,233	463,948	1,311,340	1,745,892	23,277,931	188,735	219,040	23,685,706
1996	16,119,824	2,444,408	2,106,420	206,380	478,911	1,232,549	1,681,968	24,270,460	238,584	229,142	24,738,186
1995	11,718,702	2,109,596	2,046,825	175,439	428,032	1,037,960	1,639,702	19,156,256	298,539	16,797	19,471,592
1994	14,792,381	2,155,369	1,981,680	140,135	464,610	1,184,095	1,660,998	22,379,268	306,365	65,747	22,751,380
1993	15,225,334	2,518,634	1,996,973	141,328	447,985	1,455,395	1,572,821	23,358,470	674,571	10,101	24,043,142
1992	11,353,994	2,487,535	1,980,542	115,864	406,602	1,076,265	1,529,614	18,950,416	427,421	11,535	19,389,372
1991	10,410,606	3,094,096	1,598,705	124,865	374,581	842,510	1,447,457	17,892,820	492,130	8,948	18,393,898
1990	10,779,115	3,165,306	1,478,016	121,042	288,138	738,451	1,351,210	17,921,278	538,892	6,183	18,466,353

- (1) Includes field and system operations, water treatment and quality control, and maintenance.
(2) Net of MWD rate credit of \$1,333,039.
(3) Includes loss on termination of projects and disposition of assets.

Source: Valley Center Municipal Water District

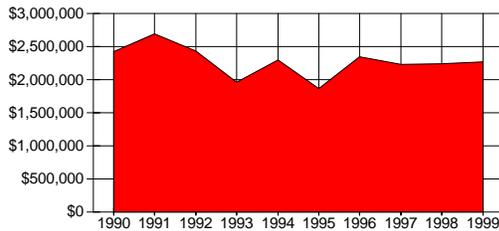
**TABLE III
PROPERTY TAX AND ASSESSMENT LEVIES AND COLLECTIONS (1)
Last Ten Fiscal Years**

FISCAL YEAR ENDED	LEVY			TOTAL COLLECTIONS(2)	NET DELINQUENT(3)	PERCENT DELINQUENT(4)
	PROPERTY TAXES	SPECIAL ASSESSMENTS	TOTAL LEVY			
1999	\$1,436,662	\$863,270	\$2,299,932	\$2,275,044	\$24,888	0.0%
1998	1,477,490	787,469	2,264,959	2,243,518	21,441	0.0%
1997	1,492,188	760,836	2,253,024	2,233,312	19,712	0.0%
1996	1,558,108	807,542	2,365,650	2,350,680	14,970	0.0%
1995	1,393,566	490,099	1,883,665	1,867,564	16,101	0.0%
1994	1,894,997	412,778	2,307,775	2,296,992	10,783	0.0%
1993	1,833,691	454,146	2,287,837	1,966,807	321,030	7.0%
1992	2,266,968	454,588	2,721,556	2,436,690	284,866	6.4%
1991	2,549,718	428,538	2,978,256	2,699,294	278,962	5.3%
1990	2,411,917	402,195	2,814,112	2,422,798	391,314	5.9%

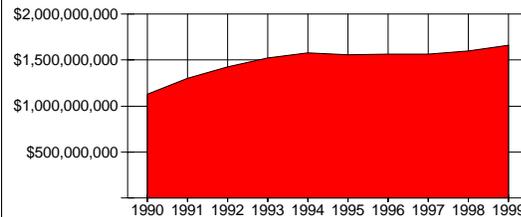
- (1) Percent delinquencies for Assessments and Property Taxes are the same since they are both collected on one tax bill.
(2) Collections do not include miscellaneous adjustments.
(3) Net Delinquent includes uncollectible portion.
(4) Percent delinquent represents current secured only. Beginning in fiscal year 1993-94 the County of San Diego remitted to the District 100% of the secured property taxes assessed. The County of San Diego then pursued collection of any remaining delinquencies through the Teeter Plan.

Source: Valley Center Municipal Water District and the Office of the Auditor Controller, County of San Diego

PROPERTY TAX COLLECTIONS



**ASSESSED VALUE
OF TAXABLE PROPERTY**



**TABLE IV
ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years**

FISCAL YEAR ENDED	SECURED			NET ASSESSED SECURED VALUE	ASSESSED UNSECURED VALUE	TOTAL ASSESSED VALUE	TAX RATE
	REAL PROPERTY	PERSONAL PROPERTY	EXEMPTIONS				
1999	\$1,656,826,114	\$1,218,439	\$9,627,329	\$1,648,417,224	\$12,888,452	\$1,661,305,676	0.02462
1998	1,598,769,552	774,021	9,087,383	1,590,456,190	10,068,791	1,600,524,981	0.02922
1997	1,566,898,632	759,275	8,973,430	1,558,684,477	8,670,874	1,567,355,351	0.03408
1996	1,565,745,748	926,532	7,991,451	1,558,680,829	9,393,715	1,568,074,544	0.03636
1995	1,558,964,694	1,381,257	8,246,150	1,552,099,801	8,551,863	1,560,651,664	0.02771
1994	1,573,962,375	993,745	7,735,487	1,567,220,633	8,534,298	1,575,754,931	0.03567
1993	1,520,737,362	814,176	7,052,946	1,514,498,592	9,382,465	1,523,881,057	0.03276
1992	1,425,047,725	3,300,749	7,069,797	1,421,278,677	5,738,951	1,427,017,628	0.03433
1991	1,300,873,008	3,267,996	6,755,306	1,297,385,698	6,074,916	1,303,460,614	0.03745
1990	1,127,091,636	2,605,219	6,528,341	1,123,168,514	4,568,808	1,127,737,322	0.04121

Source: Office of the Auditor Controller, County of San Diego.

Table V
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years

FISCAL YEAR ENDED	POPULATION ESTIMATE	ASSESSED VALUATION	GROSS BONDED DEBT (1)	LESS DEBT SERVICE FUNDS (2)	NET BONDED DEBT	NET BONDED	
						DEBT TO ASSESSED VALUATION	NET BONDED DEBT PER CAPITA
1999	21,838	\$1,661,305,676	\$291,606	\$216,044	\$75,562	0.00%	\$3.46
1998	21,374	1,600,524,981	1,044,004	380,667	663,337	0.04%	31.03
1997	20,826	1,567,355,351	1,739,973	423,686	1,316,287	0.08%	63.20
1996	20,547	1,568,074,544	2,443,413	437,699	2,005,714	0.13%	97.62
1995	20,324	1,560,651,664	3,215,415	522,498	2,692,917	0.17%	132.50
1994	20,014	1,575,754,931	3,999,074	725,683	3,273,391	0.21%	163.56
1993	19,734	1,523,881,057	4,699,353	609,238	4,090,115	0.27%	207.26
1992	19,169	1,427,017,628	5,361,547	473,934	4,887,613	0.34%	254.97
1991	18,425	1,303,460,614	6,062,068	533,234	5,528,834	0.42%	300.07
1990	17,652	1,127,737,322	6,808,576	555,131	6,253,445	0.55%	354.26

(1) Includes general obligation bonds and loans; excludes revenue bonds.
(2) Comprised of cash and cash equivalents restricted by the Board for debt service.

Source: Valley Center Municipal Water District, Office of the Auditor Controller, County of San Diego, and State of California Department of Finance

June 30, 1999

1998-99 Assessed Valuations: \$1,661,305,676

	Percent Applicable	Debt June 30, 1999
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Metropolitan Water District	0.20	\$ 1,127,168
San Diego County Water Authority	1.17	87,975
Valley Center Municipal Water District - CFD	100.00	16,729
Valley Center Municipal Water District - Municipal Finance	100.00	199,877
Valley Center Municipal Water District I.D. #U12	100.00	75,000
Valley Center Municipal Water District Assessment District No. 96-1	100.00	1,695,000
Escondido Union High School District	21.30	9,400,583
Fallbrook Union High School District	1.83	470,935
Escondido Union School District	6.85	1,610,971
Valley Center Union School District	96.21	5,267,012
City of Escondido	0.04	47
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 19,951,297
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Diego County General Fund Obligations	1.13	5,858,518
San Diego County Pension Obligations	1.13	4,198,725
San Diego County Superintendent of Schools Certificates of Participation	1.13	25,509
Palomar Community College District Certificates of Participation	4.96	371,083
Escondido Union School District Certificates of Participation	6.85	629,740
City of Escondido Certificates of Participation	0.04	34,428
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 11,118,003
COMBINED TOTAL DEBT		\$ 31,069,300
<u>Ratios to Assessed Valuation:</u>		
Direct Debt (\$199,877)	0.01%	
Total Direct and Overlapping Tax and Assessment Debt	1.20%	
Combined Total Debt	1.87%	

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/99: \$ 0

Note: Bonded debt for Valley Center Municipal Water District includes all debt for which taxes are levied.

Source: California Municipal Statistics, Inc. and Valley Center Municipal Water District.

Table VIII
WATER SALES BY CLASSIFICATION (1)
Last Ten Fiscal Years

FISCAL YEAR ENDED	DOMESTIC		COMMERCIAL		AGRICULTURAL (2)		TOTAL
	VALUE	ACRE FEET	VALUE	ACRE FEET	VALUE	ACRE FEET	VALUE
1999	\$4,590,299	5,131.5	\$805,696	1,228.9	\$14,920,895	30,321.7	\$20,316,890
1998	3,575,546	4,350.6	695,353	1,032.3	11,211,503	22,614.0	15,482,402
1997	3,356,730	5,484.2	1,046,339	1,538.9	14,466,001	29,633.5	18,869,070 (3)
1996	4,584,382	5,360.2	1,084,017	1,612.0	14,195,374	29,322.7	19,863,773
1995	3,700,340	5,071.0	1,251,672	2,031.7	10,261,413	22,661.1	15,213,425
1994	3,237,932	4,061.8	313,668	481.6	14,528,890	27,261.0	18,080,490
1993	2,386,214	3,505.8	348,879	637.2	15,540,754	32,651.1	18,275,847
1992	1,840,709	2,856.2	279,887	583.2	12,177,741	30,885.8	14,298,337 (4)
1991	2,208,609	4,141.2	331,976	897.1	10,361,496	41,587.1	12,902,081 (4)
1990	2,336,823	4,362.3	426,344	1,107.2	10,356,554	42,605.6	13,119,721 (4)

(1) Water sales include monthly meter charges but exclude pumping charges. Amounts in acre feet are water billed.

(2) Beginning in fiscal year ended 1995, includes only certified MWD IAWP agricultural water sales.

(3) Net of \$954,799 credit for MWD rate refund.

(4) Water sales through 1992 do not include revenues from the sale of filtered water. Filter Charge revenue is not available by user type prior to 1993.

Table VIII
WATER SALES BY CLASSIFICATION (1)
Last Ten Fiscal Years

FISCAL YEAR ENDED	DOMESTIC		COMMERCIAL		AGRICULTURAL (2)		TOTAL	
	VALUE	ACRE FEET	VALUE	ACRE FEET	VALUE	ACRE FEET	VALUE	ACRE FEET
1999	\$4,590,299	5,131.5	\$805,696	1,228.9	\$14,920,895	30,321.7	\$20,316,890	36,682.1
1998	3,575,546	4,350.6	695,353	1,032.3	11,211,503	22,614.0	15,482,402	27,996.9
1997	3,356,730	5,484.2	1,046,339	1,538.9	14,466,001	29,633.5	18,869,070 (3)	36,656.6
1996	4,584,382	5,360.2	1,084,017	1,612.0	14,195,374	29,322.7	19,863,773	36,294.9
1995	3,700,340	5,071.0	1,251,672	2,031.7	10,261,413	22,661.1	15,213,425	29,763.8
1994	3,237,932	4,061.8	313,668	481.6	14,528,890	27,261.0	18,080,490	31,804.4
1993	2,386,214	3,505.8	348,879	637.2	15,540,754	32,651.1	18,275,847	36,794.1
1992	1,840,709	2,856.2	279,887	583.2	12,177,741	30,885.8	14,298,337 (4)	34,325.2
1991	2,208,609	4,141.2	331,976	897.1	10,361,496	41,587.1	12,902,081 (4)	46,625.4
1990	2,336,823	4,362.3	426,344	1,107.2	10,356,554	42,605.6	13,119,721 (4)	48,075.1

(1) Water sales include monthly meter charges but exclude pumping charges. Amounts in acre feet are water billed.

(2) Beginning in fiscal year ended 1995, includes only certified MWD IAWP agricultural water sales.

(3) Net of \$954,799 credit for MWD rate refund.

(4) Water sales through 1992 do not include revenues from the sale of filtered water. Filter Charge revenue is not available by user type prior to 1993.

Source: Valley Center Municipal Water District

**Table IX
PRINCIPAL WATER CONSUMERS**

Fiscal Year Ended 1999			Fiscal Year Ended 1998		
CUSTOMER NAME	USAGE IN ACRE FEET	PERCENT OF WATER SOLD	CUSTOMER NAME	USAGE IN ACRE FEET	PERCENT OF WATER SOLD
BSTCO	1,042.7	2.84 %	BSTCO	740.4	2.64 %
Harlan Beck & Associates	767.9	2.09	Stehly, N. J. C.	669.9	2.39
Stehly, N. J. C.	705.2	1.92	Harlan Beck & Associates	497.4	1.78
Sierra Pacific Farms	643.2	1.75	P-K-B Farms	411.1	1.47
P-K-B Farms	579.1	1.58	Sierra Pacific Farms	371.2	1.33
DeJong, John	529.5	1.44	DeJong, John	343.2	1.23
Paradise Leased	467.4	1.27	Rancho Trio	337.6	1.21
Coykendall, H. C. J.	444.2	1.21	Segal, G.	312.9	1.12
Segal, G.	430.6	1.17	Paradise Leased	302.4	1.08
Rancho Trio	426.3	1.16	Coykendall, H. C. J.	295.5	1.06
Total top ten consumers	6,036.1	16.43	Total top ten consumers	4,281.6	15.31
Other consumers	30,646.0	83.52	Other consumers	23,715.3	64.63
Total water sales	36,682.1	99.95 %	Total water sales	27,996.9	79.94 %

Source: Valley Center Municipal Water District.

**Table X
SCHEDULE OF ACTIVE METERS
Last Ten Fiscal Years**

FISCAL YEAR ENDED	POPULATION	ACTIVE METERS				TOTAL ACTIVE	INACTIVE METERS	TOTAL
		DOMESTIC	AGRICULTURAL	COMMERCIAL	ALL CLASSES			
1999	21,838	5,055	1,640	356	7,051	734	7,785	
1998	21,374	4,824	1,610	353	6,787	778	7,565	
1997	20,826	4,723	1,576	354	6,653	790	7,443	
1996	20,547	4,640	1,530	357	6,527	807	7,334	
1995	20,324	4,633	1,489	357	6,479	800	7,279	
1994	20,014	4,649	1,240	488	6,377	794	7,171	
1993	19,734	3,986	2,211	170	6,367	775	7,142	
1992	19,169	3,994	2,220	171	6,385	709	7,094	
1991	18,425	3,888	2,226	172	6,286	558	6,844	
1990	17,652	3,702	2,105	184	5,991	(1)	5,991	

(1) Information on inactive meters not available for this year.

Source: Valley Center Municipal Water District and State of California Department of Finance.

Table XI
DEMOGRAPHIC STATISTICS
June 30, 1999

WATER SYSTEM

Service Area	62,100 acres
Miles of Water Main (8 inches and larger)	259 miles
Number of Closed Reservoirs	40
Maximum Capacity of Closed Reservoirs	407 acre feet
Number of Open Reservoirs (used for storage of non-potable water)	1
Maximum Capacity of Open Reservoir	1612 acre feet
Number of Pump Stations	26
Number of Pumps	98
Total Pump Capacity	20,520 horsepower
Number of Service Connections	7,785
Number of Meters in Service	7,051
Production Peak, Fiscal Year 1998-99 (August 31, 1998)	70.97 m.g.d.
Average Production, Fiscal Year 1998-99	34.99 m.g.d.

SEWER SYSTEM

Miles of Sewer Lines	45 miles
Number of Treatment Plants	2
Maximum Capacity of Treatment Plants	0.54 m.g.d.
Number of Sewer Connections	2,257

GENERAL INFORMATION

Number of Authorized Employee Positions	56
Average Years of Service of Employees	13.76

Source: Valley Center Municipal Water District.

VALLEY CENTER MUNICIPAL WATER DISTRICT EMPLOYEES
1998-1999

SHARON ALBRITTON
GARY ARANT
BARBARA BAKER
DAVID BEAN
VELMA BLAKE
TOMAS BORROEL
MICHAEL BULL
CRISTI BUSH
SCOTT BUTLER
CHRISTIAN CASTAING
RAND CHRISTENSEN
RICHARD CUNNINGHAM
CHARLES DACUS
DANIEL DENTINO
LAURIE DOERR
WILLIAM FINTON
BRIAN FOWLER
PATRICIA GARCIA
DALE GERTZEN

RONALD GILBERT
CHRISTINE GOOTEE
TROY GOSWICK
WALLY GRABBE
LINDA HALE
SA HATLAVONGSA
ALBERT HOYLE
TONY JACQUEZ
JERE JARRELL
WILLIAM JEFFREY
PATRIC JEWELL
CHRISTINE JOHNSON
DOUGLAS JOHNSON
ROBERT JONES
THAD KLIMAS
ERIC LAVENTURE
RICHARD LEARUE
GABRIELA LEZAMA
ANTHONY LoPRESTI

BRIAN LOVELADY
DAVID MANCINO
JOHN MARTINEAU
ANNE MASLEY
MICHEAL MITCHELL
EDWARD OLSON
ROBERT PANEK
LEON PENA-CONTRERAS
MIKE PUMAR
THOMAS REGAN
FRAN SHOUGH
KENNETH SIMON
JOHN STETSON
KATHY STETSON
WILLIAM SUMPTER
DEBORAH TILLEY
JAMES TURNER
JOHN VON BORSTEL
LAWRENCE WATSON

IN MEMORY

Thomas Trogdon
January 29, 1999

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